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Strengthening Public Financial Management in LAC

Public Financial Management Practices in Latin America and the Caribbean: A Review of Trends, Challenges, and Opportunities for Improvement

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List of Acronyms and Abbreviations

CGO	Comptroller General's Office (used generically for equivalent in all focus countries)	IFRS	International Financial Reporting Standards
CO	Colombia	IG	Infrequent Gaps
COFOG	Classifications of the Functions of Government (United Nations)	IMF	International Monetary Fund
CSCCA	French acronym for Haiti's Superior Court of Accounts and Administrative Disputes	INTOSAI	International Organization of Supreme Audit Institutions
CSO	Civil Society Organization	IPSAS	International Public Sector Accounting Standards
DEVIDA	Donor-established development agency in Peru	ISPPIA	International Standards for the Professional Practice of Internal Audit
DNP	Spanish acronym for Colombia's National Planning Department	ISSAI	International Standards on Supreme Audit Institutions
DNPP	Spanish acronym for National Public Budget Directorate in Peru	IT	Information Technology
DO	Dominican Republic	JA	Jamaica
DFID	UK Department for International Development	LAC	Latin America and the Caribbean
FINMAN	Government's Financial Management System (Jamaica)	LPFM	USAID Leadership in Public Financial Management Project (a previous E3 task order implemented by Deloitte Consulting LLP)
FMIS	Financial Management Information System	MDAs	Ministries, Departments, and Agencies
GAAP	Generally Accepted Accounting Principles	MG	Moderate Gaps
GFS	Government Finance Statistics	MOF	Ministry of Finance (used generically for the equivalent in all focus countries)
GFSM	Government Finance Statistics Manual (IMF)	MTBF	Medium-Term Budget Framework
GOC	Government of Colombia	MTEF	Medium-Term Expenditure Framework
GODR	Government of Dominican Republic	MTFF	Medium-Term Fiscal Framework
GOES	Government of El Salvador	MTF	Medium-Term Framework
GOG	Government of Guatemala	NGO	Non-governmental organization
GOH	Government of Haiti	OBI	Open Budget Initiative
GOHN	Government of Honduras	OCI	Spanish acronym for Internal Control Offices
GOJ	Government of Jamaica	OECD	Organization for Economic Cooperation and Development
GOP	Government of Paraguay	OGA	Spanish acronym for General Administration Office
GOPE	Government of Peru	PAC	Spanish acronym for Monthly Cash Plan
GT	Guatemala	PE	Peru
HDI	Human Development Index	PEFA	Public Expenditure and Financial Accountability
HN	Honduras	PFM	Public Financial Management
HR	Human Resources	PFMRAF	USAID Public Financial Management Risk Assessment Framework
HT	Haiti	PRODES	USAID/Peru program implemented to support decentralization
IA	Internal Audit	PY	Paraguay
IAU	Internal Audit Unit	SAI	Supreme Audit Institution
IDB	Inter-American Development Bank	SAFI	Spanish acronym for Integrated Financial Management System (El Salvador)
IFI	International Financial Institution	SBA	Stand-by Arrangement (IMF)

SECOP	Spanish acronym for Colombia's Electronic System for Public Contracting	SV	El Salvador
SG	Significant Gaps	SYSDEP	French acronym for Integrated Financial Management System (Haiti)
SIAF	Spanish acronym for Integrated Financial Management System (Guatemala, Paraguay, Peru)	TSA	Treasury Single Account
SIAFI	Spanish acronym for Integrated Financial Management System (Honduras)	UFI	Spanish acronym for Institutional Financial Units
SIGEF	Spanish acronym for Integrated Financial Management System (Dominican Republic)	VAT	Value Added Tax
SIIF	Spanish acronym for Integrated Financial Management System (Colombia)	WB	World Bank

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Executive Summary

This document reviews the current public financial management (PFM) practices in nine priority USAID partner countries in Latin America and the Caribbean (LAC) — Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Paraguay, and Peru to enable readers to compare practices between peer countries where USAID missions are present. The information used for this review was drawn from publically available documents. The document provides an assessment of current PFM practices relative to leading practices across several PFM dimensions, and identifies common trends and opportunities for strengthening PFM systems. The resulting analysis addresses a gap in the existing PFM literature.

In examining the current state of PFM in the nine countries, this document concentrates on PFM practices across the following dimensions: PFM governance, budget planning, budget execution, treasury operations and cash management, procurement, accounting and financial reporting, internal and external audit, financial management information systems, and human resources.

The nine countries included in this review demonstrate a wide variety of PFM practices, processes, challenges, and strengths. This variety reflects each country's history, economic and fiscal development institutional origins, and the extent of efforts to strengthen PFM over time. Despite the many differences between the countries, common themes emerge regarding the strengths, challenges, and opportunities for strengthening PFM practices.

The focus countries have adopted or are in the process of adopting many leading practices in PFM. However, the countries reviewed need to address implementation issues, suggesting a need for strengthening the technical capacity of civil servants engaged in PFM at both the national and subnational level, improving or developing standard operating procedures, and improving or extending financial management systems to facilitate improved PFM.

General observations across PFM dimensions include:

PFM Governance: The nine countries reviewed demonstrate a wide range of maturity in PFM governance, and exhibit traits of strong legal and regulatory frameworks, but effective implementation of these frameworks varies. A number of countries provide comprehensive and publicly available information concerning budget plans and execution, while others provide limited access to this information. The majority of countries reviewed face challenges in reducing corruption in expenditure management, procurement, and payroll, and have been working to address these challenges through improved internal control frameworks and transparency. Fiscal decentralization in a number of the countries has exacerbated the subnational PFM governance challenges where implementation is inconsistent and capacity is weak at the subnational level. Intervention options include providing technical assistance to ensure that existing PFM regulatory frameworks are consistently implemented at both the national and subnational levels and further strengthening the regulatory frameworks and institutions to foster compliance and transparency.

Budget Planning: A major weakness across the focus countries under this dimension is their inability to link development strategies and plans to medium-term fiscal planning and current year appropriations and execution. There are also significant gaps in budget credibility, as several countries consistently execute budgets that differ significantly from approved budgets. Comprehensiveness and transparency continues to be problematic for a number of the focus countries, particularly those that lag behind in terms of access to information. Intervention options include developing capacity for improved planning and forecasting, including the implementation of medium-term frameworks and supporting strategic planning at subnational levels.

Budget Execution: A number of focus countries lack standard operating procedures for budget execution. Recording and reporting capabilities vary across countries, affecting the predictability of funds and commitment controls. Intervention options for national and subnational entities include the development of standardized budget execution manuals and providing technical assistance to improve controls, such as the reporting functions.

Treasury Operations and Cash Management: Expenditure arrears are widely evident, reflecting cash management and budget execution control challenges. In addition, cash flow forecasting at the national and subnational levels is generally weak in all countries. Opportunities for strengthening cash flow management include expanding the coverage of treasury single accounts (TSA), improving the interoperability of TSAs with debt and financial management systems, and providing technical assistance to strengthen cash flow forecasting at the national and subnational levels.

Procurement: All nine countries exhibit challenges in procurement planning and execution, and poor linkages between budget preparation, procurement planning, and execution systems. Oversight and governance of procurement, weak monitoring of contract compliance, non-compliance with bidding processes by procurement agencies, and non-transparent bidding processes are additional areas where most countries face challenges. Intervention options include building technical capacity in procurement, improving connectivity between procurement and financial management systems, the introduction of electronic procurement systems and implementation of preferred supplier programs.

Accounting and Financial Reporting: Most of the nine countries exhibit strength in the timeliness and regularity of accounts reconciliation and the quality of annual financial statements. However, nearly all of the countries face challenges in the quality and timeliness of in-year budget execution reporting and monitoring. Those exhibiting the greatest weaknesses have challenges providing information to budgetary entities on available resources and outturn reporting on the use of those resources. Accrual accounting has become the norm for only the most developed of the focus countries. Intervention priorities include strengthening periodic in-year reporting on budget execution and revenue outturns, and providing technical assistance to help governments transition to international public sector accounting and reporting standards.

Internal and External Audit: All nine countries are members of the International Organization of Supreme Audit Institutions (INTOSAI) and have independent supreme audit institutions (SAI) that report to the legislature, but not all have adopted international standards for external audit. Moreover, legislative scrutiny of external audit reports is weak, with limited or no follow-up of audit findings across all focus countries. These weaknesses are even more severe at the subnational level. Tracking audit recommendations and monitoring follow-up, strengthening audit procedures according to international standards, developing audit manuals, and providing capacity building to strengthen the technical skills of external auditors are all areas for potential intervention.

Financial Management Information Systems (FMIS): The LAC region has seen the largest number of FMIS projects of any region in the world over the past 30 years. Yet, only a few of the focus countries have fully implemented a complete FMIS system. For instance, FMIS have not been rolled out to remote locations in some countries, or not all modules (e.g., TSA, procurement, human resources (HR), etc.) have been integrated into the system. This lack of a fully implemented FMIS system weakens PFM in general, hindering budget execution, financial reporting, and audit, while increasing financial risks for the government. Opportunities to strengthen FMIS include extending current implementations to provide fuller coverage of all PFM functionalities and geographies, and providing technical assistance and training on the management, development, and operation of the FMIS.

Human Resources Management: Decentralized HR management systems in a number of countries make it difficult to manage payroll, while in other countries, lack of access to payroll records, procedures to circumvent HR legislation, and lack of adherence to budgeted payroll levels contribute to difficulty in managing payroll. Poor coordination between ministries, departments, and agencies (MDAs) and central authorities, such as ministries of finance, is evident in a number of countries. Moreover, a number of countries lag in terms of the frequency and effectiveness of payroll reconciliations and internal payroll audits. Intervention opportunities include supporting the integration of personnel databases and FMIS payroll modules, developing procedures and manuals for more effective HR and payroll management, and developing and implementing improved payroll controls.

Introduction

The global financial crisis of 2009 exposed weaknesses in PFM systems in governments across the globe. Studies indicate that ineffective PFM systems themselves contributed to and perpetuated the financial crisis, and offered limited support to prevent it.¹ As a residual effect, PFM priorities have changed as more is learned about the causes of the financial crisis. Post-financial crisis trends across the globe include improved risk management, more efficient and effective service delivery, improved value for money in public procurement, adoption of medium-term frameworks (MTFs) for budget planning, and implementation of performance management systems. Like other regions of the world, the LAC region has demonstrated a greater prioritization of PFM reforms in an effort to better protect public services and fiscal priorities from external shocks in the future. The manner in which these trends are manifested in LAC is important to understand as donors, international institutions, and civil society organizations (CSOs) continue to engage in the region.



This document reviews current PFM practices in nine priority USAID partner countries in the LAC region — Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Paraguay, and Peru against internationally accepted leading practices in order to facilitate comparison between peer countries where USAID missions are present. It draws on publically available information to compare current PFM practices, identify common trends, and recognize opportunities to strengthen PFM systems. PFM practices are examined across nine dimensions: PFM governance, budget planning, budget execution, treasury operations and cash management, procurement, accounting and financial reporting, internal and external audit, financial management information systems, and HR. This document does not describe PFM reform developments over time. Rather, it provides an assessment of the current state of PFM practices in the focus countries relative to leading practices and to their peers.

Methodology

This analysis relies on secondary research of publically available materials from the World Bank (WB), Inter-American Development Bank (IDB), International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD), USAID and other bilateral development agencies, Open Budget Initiative (OBI), local news sources, host country government information portals and websites, regional think tanks, CSOs, and other relevant sources. Drawing on these materials, descriptions of internationally accepted leading practices for each PFM dimension were compiled. Observed PFM practices in each of the focus countries were then analyzed for gaps vis-à-vis the descriptions of leading international practices. As detailed in Table 1 below, observed gaps were rated based on available information at one of three levels: (i) SG – Significant Gaps, (ii) MG – Moderate Gaps, or (iii) IG – Infrequent Gaps. By distinguishing the severity of the noted gap, clearer trends emerge across PFM dimensions, sub-dimensions, and by country. Noting the severity of the gap can also help prioritize areas for strengthening.

¹ Public Financial Management Reform in a Period of Global Adjustment, Grant Thornton, 2013

Table 1 – Gap Magnitude

Level		Description
SG	Significant Gaps	Significant variance between leading practice and observed practice.
MG	Moderate Gaps	Moderate variance between leading practice and observed practice.
IG	Infrequent Gaps	Minimal variance between leading practice and observed practice.

USAID selected nine LAC countries to include in this document. At different points throughout this report, these countries are referred to by both their full and abbreviated names:

- I.** Colombia (CO)
- II.** Dominican Republic (DO)
- III.** El Salvador (SV)
- IV.** Guatemala (GT)
- V.** Haiti (HT)
- VI.** Honduras (HN)
- VII.** Jamaica (JA)
- VIII.** Paraguay (PY)
- IX.** Peru (PE)

This document is structured around key PFM dimensions, providing a summary of trends in each dimension across the nine countries. Each section begins with a summary table of observed gaps by country in that dimension. Annexes provide summary reports for each of the nine focus countries.

Findings across PFM Dimensions

I. PFM Governance

A sound PFM governance system promotes effective delivery of government services and ensures accountability and transparency in public administration. Strengthening PFM is an important means for realizing greater control, predictability, and transparency, which can improve efficiency in the allocation of resources and service delivery, and can even lead to greater macro-economic stability.² Table 2 lists the leading practices across five key sub-dimensions for PFM governance: (i) Legal and Regulatory Framework, (ii) Public Access to Information, (iii) Internal Controls, (iv) Fiscal Decentralization and (v) Corruption and ranks the current state in each focus country. All of the focus countries maintain solid legal frameworks for PFM governance, with generally well defined laws for the management of public funds and methods for accountability and transparency to constituents; however, levels of implementation vary drastically. **Colombia** and **Peru** emerge as regional leaders in this dimension, because they demonstrate better implementation of their legal frameworks. The remaining countries have been less successful in implementing many, if not most, of the leading practices in PFM governance. Fiscal decentralization is the biggest challenge for every country.

Table 2 – Leading Practices and Observed Gaps for PFM Governance

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
Legal and Regulatory Framework	There is appropriate legal reform to strengthen PFM systems and processes as practices evolve and new technologies are developed.	IG	IG	IG	IG	MG	IG	MG	MG	IG
Public Access to Information	The legal framework mandates public access to information, which must be up-to-date and easily available to citizens.	IG	MG	IG	IG	SG	MG	MG	SG	IG
	Budget and procurement information is available online to the public, and is accurate, comprehensive, and up-to-date.	IG	MG	MG	MG	SG	MG	MG	SG	IG
Internal Controls	There are appropriate internal control frameworks in place at the national and subnational levels.	IG	IG	IG	IG	MG	SG	MG	MG	IG
Fiscal Decentralization	Budget authority is decentralized across different levels of government.	MG	SG	SG	SG	SG	SG	SG	SG	MG
Corruption	Government has established anti-corruption supervisory bodies or equivalent independent entities, and an anti-corruption legal framework is enforced.	MG	SG	SG	SG	SG	SG	SG	SG	IG

Legal and Regulatory Framework – The legal and regulatory framework across the PFM dimensions is the backbone of PFM governance, providing a clear set of rules for public administrators. Key elements of a good legal and regulatory framework include: (i) comprehensive PFM laws; (ii) procurement laws; and (iii) an accountability framework ensuring transparency in public administration. It is critical to consistently implement a robust legal and regulatory framework. Although the legal framework is strong

² Public Financial Management, UNITAR, 2012

across the majority of focus countries (as shown in Table 2), consistent implementation is lacking, particularly at the subnational level.

- LAC countries recently implemented legal reforms strengthening the specificity in their budget laws and procurement regulations. Such reforms were noted in **Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, and Peru** within the past ten years. While some legal reforms to PFM systems have also been approved by **Haiti, Jamaica, and Paraguay**, implementation is generally limited, inconsistent, or incomplete.
- **Colombia and Peru** lead in both PFM regulation and implementation, although several gaps still exist, particularly with respect to transparency. In **Jamaica**, PFM regulations are very detailed and sufficiently address budgetary and procurement subjects; however, compliance and implementation vary across MDAs.
- Although all nine countries maintain civil service laws, there are gaps in the application of the rules, albeit to varying degrees. A clear and transparent framework for civil service allows governments to maintain consistency in the creation of department manuals, programs and policies, budgets and annual reports, and stakeholder reports. **Dominican Republic** is in the process of implementing a new civil service law, which aims to strengthen control mechanisms to measure the professionalization of its civil servants.³

Public Access to Information – The comprehensiveness and quality of information available to the public is a harbinger of good governance because it is reflective of transparency, civic involvement, and diminished opportunities for corruption. Public access to information should be guaranteed by the PFM legal and regulatory framework, and is considered a necessary practice.

- **Colombia, El Salvador, Guatemala, Honduras, Jamaica, and Peru** demonstrate strong public access to information through complete and working Ministry of Finance (MOF) web pages displaying relevant documentation and up-to-date posting of budget and procurement documentation.
- In **Dominican Republic, Haiti, and Paraguay**, there have been limited improvements in the quantity and/or quality of information provided in recent years, thus public access to information is still poor. There are contradictory findings for some countries in this area. Recent Public Expenditure and Financial Accountability (PEFA) scores (see Table 13 in Annex 1) indicate relatively strong public access to information in **Dominican Republic and Paraguay** (with “B” and “A” scores respectively). Yet, USAID Stage I appraisals, IDB documentation, and IMF Article IV reports suggest that, although there may be public access to key fiscal information, the information available is incomplete and inaccurate in these countries.
- Key public sector information may not be consistently available, particularly if the legal and regulatory framework does not support public access to information. For instance, neither **Haiti** nor **Paraguay** has a law guaranteeing access to information.

Internal Controls – Proper implementation of standardized and comprehensive internal controls ensures orderly, ethical, and efficient operations, compliance with laws and regulations, and the proper safeguarding of assets. In the public sector, internal controls can improve government accountability to taxpayers and donor institutions and help to promote consistency in processes and systems.

- A national internal control framework exists in most of the focus countries. **Colombia, Dominican Republic, El Salvador, Honduras, Guatemala, Paraguay, and Peru** have implemented, or are in the process of implementing, standardized internal control procedures for every public sector entity at the national level. Although these frameworks put basic controls in place, they need further improvement in order to meet international standards.

³ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012

- In the PEFA evaluations for both **El Salvador** and **Peru**, payroll controls, controls in government procurement, and internal controls for non-salary expenditures received high marks with an “A” and “B+” respectively (see Table 13 in Annex 1). Other countries struggle with implementation of internal controls. **Jamaica** has had difficulties, particularly with linking the payroll to personnel databases and obtaining accurate and timely information on staffing needs and payment status.⁴
- In **Honduras** and **Jamaica** many internal control structures, both at the central and subnational levels, are still at nascent stages and largely ineffective.
- In **Colombia**, there is regular risk monitoring across the public sector, with multiple layers of control applied at different levels; however, some internal controls have been found to be overlapping and duplicative.⁵

Fiscal Decentralization – Fiscal decentralization refers to revenues and expenditures that are under the control of subnational governments and administrative units. On the expenditure side, it denotes the transfer of clearly delineated functional authority and the associated assignment of financial resources to subnational governments. Fiscal decentralization enables a more efficient matching between preferences and service provision. On the revenue side, the most common types of fiscal decentralization include increasing the transparency and stability of transfers and allowing subnational entities to autonomously collect and allocate their own taxes and non-tax revenues.

- Only **Colombia** and **Peru** have “Moderate Gaps” noted in this sub-dimension of PFM Governance. The other seven countries demonstrate more serious gaps in their ability to grant functional authority to non-central level MDAs, and there are ongoing challenges in most LAC countries in rolling-out PFM systems and practices consistently at non-central level entities.
- In **Dominican Republic**, **Guatemala**, and **Haiti**, disbursements to subnational levels have historically not matched needs. This has been attributed to poor communication, inaccurate reporting, insufficient data collection, and poor budget planning. **Honduras** and **Jamaica** exhibit low capacity to spend allotments from the central level and to comply with centrally mandated controls.
- **El Salvador** remains highly centralized and has only recently begun the decentralization process. As a result, PFM practices at the subnational level are inconsistently implemented and there is an overall lack of monitoring in these entities. To varying degrees, this is also the case in **Dominican Republic**, **Guatemala**, **Haiti**, and **Paraguay**.

Corruption – The opportunity for corruption exists in any PFM system. Transparency International’s Corruption Perception Index measures the perceived levels of public sector corruption.⁶ Of 177 evaluated countries, the 2013 survey ranked all nine focus countries in the bottom half of the list (where 1 denotes the least corrupt country and 177 the most corrupt country). The rankings for the focus countries range from 83 to 163:

- 83 – **El Salvador, Jamaica, and Peru**
- 94 – **Colombia**
- 123 – **Dominican Republic and Guatemala**
- 140 – **Honduras**
- 160 – **Paraguay**
- 163 – **Haiti**
- Strides have been made in establishing anti-corruption regulations in **Colombia, Dominican Republic, Guatemala, Jamaica, Haiti, Honduras, and Paraguay**; yet, consistent implementation of

⁴ PEFA Assessment for Jamaica, 2013

⁵ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

⁶ Transparency International’s Corruption Perception Index 2013, http://www.transparency.org/whatwedo/pub/cpi_2013

the anti-corruption legal frameworks is lacking. For example, while there has been great improvement in the implementation of controls and anti-corruption regulation in **Colombia**, political will and consistent execution are still lacking across some sectors and levels of government.⁷ **Jamaica** has made progress in combating petty corruption at the central level with strong support from the Contractor General, but anti-corruption agencies do not have prosecutorial powers.⁸

- The establishment of integrity departments (or their equivalent) is an emergent trend in the region; and all focus countries have established at least one of these agencies in the past few years. These institutions were created to provide independent oversight, combat corruption in the public sector, and improve PFM and overall government operations. Focus countries have had varying degrees of success in establishing these institutions. For example, in both **Jamaica** and **Paraguay**, these institutions have limited ability to prosecute alleged corruption. Impunity for government officials is still common in **Dominican Republic**, **Guatemala**, and **Paraguay**.
- There is noted difficulty in implementing anti-corruption controls, particularly with respect to inaccurate financial reporting. Findings in **Dominican Republic**, **Haiti**, and **Paraguay** suggest that these counties still struggle with inaccurate reporting.
- The management of payroll operations is a major area for corruption in the region. This is often the largest expenditure category for any government, and without robust anti-corruption controls in place, it can be a hotbed of corruption. Despite recent reforms, **Jamaica** and **Haiti** continue to experience high levels of “ghost workers” on the payroll.⁹ ¹⁰ **Paraguay** implemented reforms to increase the transparency in the hiring of public service employees, and soon all public servants will be required by the constitution to file a sworn asset declaration upon taking office.¹¹

⁷ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

⁸ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

⁹ PEFA Assessment for Jamaica, 2013

¹⁰ PEFA Assessment for Haiti, 2011

¹¹ PEFA Assessment for Paraguay, 2011

II. Budget Planning

Budget planning is the process by which the government creates, approves, and enacts a budget; the process should be sufficiently transparent and well-documented to hold the government accountable. The budget planning process allows for government officials to discuss whether central, subnational, and MDA budgets are realistic and appropriate. The different steps of the budget planning process should be compliant with the national regulatory and legal framework and adhere to the budget calendar.

Table 3 lists leading practices across key sub-dimensions for budget planning. A range of gaps were observed across the nine focus countries, with the highest propensity for significant gaps found in budget credibility and comprehensiveness and transparency. In this PFM dimension, **Colombia, El Salvador, and Peru** emerge as regional leaders and are most in line with leading practices. The budget preparation processes in **Colombia and Peru** are well-respected, and multi-year planning frameworks have been in use for some time. Multi-year frameworks in **El Salvador** are still incipient, and there are moderate to significant gaps in several areas, but the government has undertaken substantial efforts to improve its budget planning. **Dominican Republic, Haiti, and Paraguay** exhibit major gaps in their processes, and each country struggles to prepare accurate budgets. Overall trends in this area include the progression toward the adoption of medium-term frameworks for planning purposes and integrating national strategic plans into the budgeting process. Budget preparation and disbursements at the subnational level represent the biggest challenges in this dimension for all nine countries.

Table 3 – Leading Practices and Observed Gaps for Budget Planning

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
Budget Preparation	Budget inputs are received by MOF from MDAs consistently and on time.	IG	SG	MG	MG	SG	MG	MG	SG	IG
	The public and CSOs play an active role in the budget preparation process.	MG	SG	MG	SG	SG	MG	MG	SG	MG
	The legal and regulatory framework does not permit modification of the budget by the executive after approval by the legislature.	SG	MG	MG	SG	MG	MG	MG	MG	IG
Medium-term Frameworks and Strategic Planning	The strategic planning process informs the budget planning process.	IG	SG	MG	IG	SG	MG	IG	MG	MG
	Multi-year plans are prepared using medium-term frameworks.	IG	MG	MG	MG	SG	SG	MG	SG	IG
Budget Credibility	Reliable data is collected from all MDAs.	MG	SG	SG	MG	SG	MG	SG	SG	MG
	Revenue projections are accurate.	IG	SG	IG	MG	SG	IG	SG	MG	MG
	Aggregate expenditure outturn meets amounts in original approved budget.	IG	SG	IG	IG	MG	MG	IG	MG	IG
Comprehensiveness and Transparency	All in information on public expenditure and revenue is captured in the budget.	IG	SG	IG	IG	SG	MG	SG	SG	IG

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
	Budget preparation and disbursements at the subnational level are transparent and documented.	SG	SG	SG	SG	SG	SG	SG	SG	MG

Budget Preparation – The purpose of the budget preparation process is to compile the funding needs of MDAs in line with strategic objectives and to seek legislative approval for MDA spending in a fiscal year. Although the budget planning and preparation processes can manifest differently in government systems, the resulting budget should articulate how the government intends to spend its resources during a given year and contain sufficient information to enable government officials and civil society to evaluate whether it is realistic and appropriate. Budget inputs should be consistently received by the MOF from entities at the central and subnational levels.

- In **Colombia, El Salvador, and Honduras**, the budget is formulated through a series of iterations between MDAs and MOF. The budget calendar is well-respected by all entities involved. After the draft budget is finalized, the MOF presents it to the legislature for approval.
- In **Dominican Republic, Haiti, and Paraguay**, MDAs and subnational governments do not submit budgetary requests to the MOF within the established timeline, and some do not submit them at all. In many instances, the budget requests submitted are inaccurate which may lead to insufficient funding during the fiscal year.
- In **Jamaica**, the annual budget calendar is not formally established. No information from MOF is provided as to when detailed budget estimates should be prepared by MDAs, how many weeks should be allocated to the task, or when it should be completed.¹²
- In **Dominican Republic, Guatemala, Haiti, Paraguay, and Peru**, there is limited public and/or CSO involvement during the “negotiation” phase of budget planning. In **Peru**, there are no “citizens’ budgets” (i.e., a nontechnical presentation to enable broad public understanding of a government’s plan for raising revenues and spending public funds).¹³ Limiting public involvement in budget preparation may increase the risk that public funds are not directed appropriately toward programs, institutions, and sectors that align with public interests.

Medium-Term Frameworks and Strategic Planning – Leading PFM practices include the use of medium-term frameworks (MTFs) to better forecast fiscal information (e.g., inflation, GDP, revenues, and debt) and plan budgetary needs and public expenditure over a multi-year time horizon. A national strategy defines the country’s long-term vision and its medium-term plan; it also describes how the government will progress toward achieving its strategy in the current year and subsequent two to four years. MTFs discipline the formulation of spending options and make tradeoffs explicit. Figure 1 demonstrates the various levels and projections of the three principal MTFs: (i) medium-term fiscal framework (MTFF), (ii) medium-term budget framework (MTBF), and (iii) medium-term expenditure framework (MTEF).

¹² PEFA Assessment for Jamaica, 2013

¹³ Open Budget Survey Results 2012 for Peru

Figure 1 - Fiscal, Budgetary and Expenditure MTFs¹⁴

Projections	Level		
GDP Projections	MTFF	MTBF	MTEF
Inflation Projections			
Aggregated Expenditure Projections			
Aggregated Income Projections			
Expenditure Projections by Administrative Unit			
Expenditure Projections by Function			
Disaggregated Income Projections			
Expenditure Projections by Program			
Results Projection			

In the LAC region, implementation of MTFs began in the mid-2000s, with mixed results. The successful implementation of MTFs remains a significant challenge, and efforts to adopt MTFs have been both applauded and criticized. An IDB report, for example, described MTF adoption in LAC as an “elaborate façade of fiscal reform at high transaction costs without improving budgetary outcomes.”¹⁵

- Implementation of MTFF has become one of the most popular reforms to the budgetary process in LAC during the last decade.¹⁶ An MTFF introduces policy constraints into projections and establishes GDP, inflation, aggregated expenditure, and aggregated income projections. **Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Paraguay, and Peru** implemented MTFFs, with external assistance from WB, IDB, and other development partners. In **Colombia**, multi-year budget planning reflects a functioning policy-based system.¹⁷ **Paraguay** has struggled to plan on a multi-year basis; however, efforts are underway to create a macro-fiscal unit with expertise in macro-economic and fiscal modeling to prepare medium-term forecasts.¹⁸
- A leading practice of mature PFM systems is the adoption of MTBFs, which are used to allocate resources in accordance with strategic priorities and fiscal objectives, and are divided into sub-MDA programmatic increments. They incorporate projections from the MTFF, and expand those with additional projections (see Figure 1). **Guatemala, Haiti, and Paraguay** have MTBFs, but they are not used consistently to establish budget requirements for the execution of programs and policies on a multi-year basis. **Colombia, El Salvador, and Peru** have had more success in implementing MTBFs, which aligns with their more mature PFM processes and systems.
- An observed trend across all focus countries is the introduction of national strategic plans. **Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, and Peru** recently began to adopt comprehensive national strategies, as previous strategic planning documents were focused on a particular program, sector, or MDA. **Peru** previously had “insufficient” national planning, which IDB suggests prevented the government from engaging in various forms of assistance.¹⁹
- Fortifying a link between policy and fiscal performance has been especially challenging in **Haiti, Dominican Republic, and Paraguay**. When the budget is prepared in **Haiti**, no reference is included as to what constitutes the national policy. In addition, the priorities detailed in the budget circular are too general to facilitate the systematic and strategic allocation of resources.²⁰

¹⁴ Filc and Scartascini, “Is Latin America on the Right Track?” IDB, 2010

¹⁵ Schiavo-Campo, “Potemkin Villages: The Medium-term Expenditure Framework in Developing Countries,” Public Budgeting and Finance, 2009

¹⁶ Filc and Scartascini, “Is Latin America on the Right Track?” IDB, 2010

¹⁷ Beyond the Annual Budget, WB, 2013

¹⁸ PEFA Repeat Assessment for Paraguay, 2011

¹⁹ Country Program Report for Peru, IDB, 2012

²⁰ PEFA Assessment for Haiti, 2008

- Budget planning in **Colombia**, in terms of a multi-year perspective and annual formulation, reflects a functioning policy-based system.²¹

Budget Credibility – Budget credibility pertains to whether the budget is a realistic assessment of the resources given projections of the MTFE and the extent to which approved budgets match actual expenditures during a fiscal year. Without fiscal discipline and realistic revenue projections, a successful budget may be unattainable.

- **El Salvador** is one of the best performers on budget credibility; as of the 2013 PEFA evaluation, revenue projections and budget execution were very accurate. The government improved tax structures and tax administration, and has made progress on budget execution according to approved allocations.²²
- Low budget execution rates in **Dominican Republic, Guatemala, Haiti, and Paraguay** indicate that the national budgets have not been credible, as expenditure outturn has varied from budget allocations by a significant amount. **Dominican Republic** struggles with expenditure outturn and the composition of budget expenditure outturn compared to the original approved budget.²³
- In **Haiti**, revenue projections were consistently under achieved from 2008 through 2013.²⁴ **Paraguay** is faced with a similar challenge. Overly optimistic revenue forecasting can lead to higher than expected deficits and unplanned borrowing requirements.
- Revenue projections can be too conservative, which can facilitate discretionary spending with little or no oversight. In **Dominican Republic**, revenue projections have been consistently low in recent years facilitating discretionary spending of the “unplanned” or “non-forecasted” revenue inflows.²⁵ Conversely, in **Peru**, revenue estimation was deemed “conservative,” which was cited by PEFA evaluators as an attempt to tighten public expenditure levels.²⁶ In this instance, in Peru, a country with strong budget controls, discretionary spending was not allowed, and MDAs could not spend surplus revenues.

Comprehensiveness and Transparency – Budget transparency and comprehensiveness are key pillars of a sound PFM system and a credible budget. In principle, all resources should be channeled through the budget and thus be subject to review by the executive and legislative branches. Having a transparent and comprehensive budget means that budget and fiscal risk oversight is thorough, and that fiscal and budget information is widely accessible to the public.

- Open Budget Initiative’s²⁷ rankings for budget transparency are representative of trends in the region (see Table 4). Of the focus countries surveyed, **Dominican Republic** scores lowest in budget information and completeness, while **Colombia** and **Peru**, the regional leaders, demonstrate better budget clarity and increased citizen accessibility. Low scores on the Open Budget Survey may “raise serious questions about the prospects for individual countries to overcome poverty.”²⁸ As a result, there may be increased risk of inefficient allocation of external and internal resources.

²¹ Beyond the Annual Budget, WB, 2013

²² PEFA Assessment for El Salvador, 2013

²³ PEFA Assessment for Dominican Republic, 2012

²⁴ IMF Article IV Consultation for Haiti, Mar. 2013

²⁵ PEFA Assessment for Dominican Republic, 2007

²⁶ PEFA Assessment for Peru, 2009

²⁷ As part of the International Budget Partnership global research and advocacy program to promote public access to budget information and the adoption of accountable budget systems. <http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/>

²⁸ “Governments serving half the world’s population shut citizens out of budget decisions that affect their lives,” Open Budget Survey Press Release, Jan 2013

Table 4 – Open Budget Survey 2012 Results²⁹

Criteria Scored	CO	DO	SV	GT	HT	HN	JA	PY	PE
Budget Information and Completeness of Budget	58	29	43	51	N/S ³⁰	53	N/S	N/S	57

- National budgets do not always include all collected revenues, and, as such, are not comprehensive. Revenues from state-owned enterprises, for example, are not reflected in the budgets in **Dominican Republic, Haiti, Jamaica, Paraguay, and Peru**.
- Budget preparation and disbursements at the subnational level are not transparent in any of the focus countries. Disbursements are generally not a reflection of needs of subnational government entities, budget requests are often not submitted to central entities on a timely basis, and the apportionment process does not consistently take into account different demographic, geographical and development factors.

²⁹The Open Budget Survey consists of 125 questions completed by independent researchers in 100 countries, with a combined population of 6.1 billion (89% of the global population from 2010). The bulk of the Survey's questions focus on the amount of budget information in eight key budget documents. Countries scoring between 81-100 points are the most transparent, providing extensive information on their budgets; those with 0-20 provide scant or no information. <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf>

³⁰ N/S = Not Scored

III. Budget Execution

Budget execution entails procuring goods, services, and works toward achieving the programmatic objectives outlined in strategic planning documents and the annual budget. During budget execution, budget plans and strategies are carried out and government policies are implemented throughout the fiscal year. Budget execution is comprised of several different steps, including (i) authorization and apportionment; (ii) commitment of funds; (iii) acquisition or procurement and verification; and (iv) payment. The budget execution process is cyclical and intertwined with the reporting, internal audit, and external audit functions. This integrated approach to budget execution is depicted in Figure 2. The process of budget execution requires the implementation of the approved budget according to predefined policy guidelines, as well as controls to prevent misuse of funds. Budget execution should allow MDAs to procure goods and services in a cost-efficient manner and according to the approved budget. Finally, it should allow MDAs enough flexibility to adapt to changes in the economic environment and challenges in implementation.

Figure 2 – Budget Execution Cycle

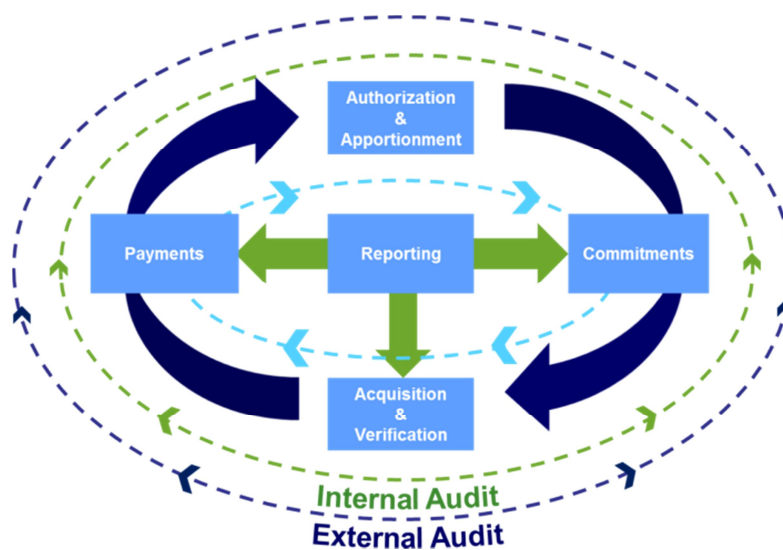


Table 5 lists leading practices across key sub-dimensions for budget execution. Observed gaps in budget execution were less significant than those in budget planning. **Colombia** and **Peru** demonstrated the most advanced procedures in their budget execution processes and systems, as well as the closest alignment to leading practices. Both countries execute closely to planned and budgeted activities and have documented processes and manuals and ongoing trainings for executing agencies. **Guatemala, Haiti, Jamaica,** and **Paraguay** particularly struggle in this dimension. External involvement by international donors, such as the provision of on-budget support and technical assistance, is another consistent trend, yet donor sharing of financial information with partner country institutions remains a challenge. External donors can improve coordination with partner country governments by developing transparent communication strategies with recipient countries and MDAs.

Table 5 – Leading Practices and Observed Gaps for Budget Execution

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
Predictability and Control of Execution	Variance from budget is managed and adjustments made such that projects and units deliver services and products on time and on budget.	IG	SG	SG	MG	SG	MG	SG	MG	IG
	Reallocations throughout fiscal year are made with sufficient authorization and infrequently.	IG	MG	MG	SG	SG	MG	MG	MG	IG
	Budget classification consistent with international standards.	MG	IG	MG	IG	MG	MG	MG	MG	IG
	The ministry properly controls the budget execution function across all spending agencies and departments. Budget procedures and tools are being implemented consistently.	MG	MG	MG	SG	SG	MG	SG	SG	MG
	Spending agencies execute on arrears and follow the budget plan throughout the fiscal year.	MG	MG	MG	SG	SG	MG	MG	SG	IG
Donor Practices	External stakeholders and internal management identify performance as a core value of the organization and coordinate effectively.	SG	SG	SG	SG	SG	SG	SG	SG	SG
	External direct budget support is predictable and well communicated.	IG	IG	IG	SG	SG	SG	SG	SG	IG

Predictability and Control of Execution – Predictability and control in budget execution are essential for the transparent and accountable use of public funds. Predictability is related to the extent to which the treasury allocates funds to MDAs as needed, according to accurate cash flow projections that are based on approved expenditure programs. Controls ensure that MDAs adhere to budget laws when processing budget expenditures. These are central considerations in donors’ and the private sector’s investment decisions.

- The LAC region has varying results in terms of predictability in the availability of funds for commitment of expenditures, with **Colombia** and **Peru** leading the focus group, and **Dominican Republic**, **Haiti**, and **Jamaica** facing the most significant challenges in this PFM dimension (see Table 13 in Annex 1 for relevant PEFA scores).
- In **El Salvador**, **Haiti**, and **Jamaica**, the Budget Directorate divides the annual budget by twelve months to plan allocated budget disbursements. In **El Salvador**, this practice pushes the government into arrears, forcing loans in order to cover deficits.³¹
- In **Guatemala**, the composition of actual expenditures exceeded original budget amounts for the years 2005-2010. Most sectors have little certainty over whether the full budgeted resources will be available to fund programs leading to instances of cash rationing and budget shortfalls. In **Haiti**, budget allocations for regional departments are made available with significant delays, resulting in slow implementation of activities at that level and frequent reallocations throughout the fiscal year.

³¹ Information provided by USAID/El Salvador, April 2014

- Unpredictable execution of spending is a common trend in **Dominican Republic, Guatemala, Haiti, Jamaica, and Paraguay**. This can generally be attributed to unrealistic forecasts (of either revenue or expenditure, or both) used to prepare the national budget. In **Colombia**, there is inconsistent execution mainly in the investment portion of the budget also due to poor forecasting. Investment cost proposals and recurrent costs are prepared separately, so operating costs for new investments are not adequately captured. The operational budget, however, was observed to be consistent in execution due to better forecasting mechanisms.
- Off-budget execution by MDAs is not rigorously controlled or monitored by a central authority in **Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Paraguay**. Off-budget expenditure controls in these countries are not formalized by central legislation.
- There is a “use it or lose it” approach to annual expenditure in the region; as a result, spending is high toward the end of the fiscal year as MDAs try to exhaust any non-executed budgetary allotments. In **Colombia and Paraguay**, this has been cited as a common occurrence. As a result, PFM systems and procurement administrators may be under pressure to bypass procurement regulation and issue emergency tenders before fiscal year end.
- Frequent under-execution of state budget allocations is an ongoing challenge in **Paraguay**. Recent PFM assessments stated that under-execution can be attributed, on the one hand, to the Legislature’s frequent passing of budgets that assume expenditures above estimated revenues, and on the other hand, to constraints on MDAs when implementing their budgets.³²
- Another trend is the lack of an updated manual detailing the budget execution process. In **Haiti**, for example, the existing manual is outdated and does not reflect recent changes in PFM systems. This could increase the risk of inconsistent execution practices and fiduciary risk throughout the entire system.
- There are high levels of expenditure arrears in **Guatemala, Haiti, Jamaica, and Paraguay**, which indicates that governments are overspending and that controls on commitment of funds and overall execution of the budget are weak. This can also indicate weak cash management processes. Governments may resort to cash rationing in order to meet obligations. In **Paraguay**, for example, expenditure arrears have ranged from 4% to 8% of total expenditure in a given year.

Donor Practices – Donors have been engaged in the LAC region for over fifty years and have an extensive portfolio of projects, programs, financing, and assistance. However, financial information provided by donors for budgeting and reporting purposes is incomplete, submitted late, and not communicated through appropriate state channels. Given the high levels of assistance the focus countries receive—estimated at \$4.6 billion a year—it is critically important that donor’s financial information be transparent, complete, and submitted to host country counterpart central finance authorities on a timely basis.³³

- Direct funding mechanisms with donors and international institutions exist in **Colombia, Dominican Republic, Guatemala, Jamaica, Paraguay, and Peru**.
- In both **El Salvador and Paraguay**, there have been ongoing challenges with the in-year timeliness of donor disbursements. Part of this challenge has to do with the lack of linkage between the annual budget process and the PFM legal and regulatory framework. In **Paraguay**, external funding is authorized on a “case-by-case” basis by the Legislature, and not through the approval of an “overall annual quota” based on estimates of the financing needs of the public sector for the following year.³⁴

³² PEFA Repeat Assessment for Paraguay, 2011

³³ World Bank DataBank, Net Official Development Assistance Received, <http://databank.worldbank.org/data/views/reports/tableview.aspx>

³⁴ PEFA Assessment for Paraguay, 2011

- Some disbursement delays have to do with recipient countries' borrowing strategies and decision-making processes. **Peru**, for instance, has faced challenges in receiving funds on schedule. When the Peruvian government changed its policy concerning the effective date of loans offered by external agencies, loan disbursements were delayed. This happened regularly throughout the 2007-2009 period.³⁵ If external financing is not properly planned or scheduled and decisions are made at the last minute, the timeliness of disbursements can be disrupted.
- Across the region, actual amounts disbursed from external sources consistently deviate from original projections. For example, in **Guatemala**, in the period 2007-2010, six of nine disbursements were lower than originally planned. In two cases, disbursements were significant higher than expected.³⁶
- Another way external agencies have been engaging directly with partner country systems is through procurement activities. Despite ongoing challenges in procurement systems across the region, IDB approved the use of eight countries' public procurement systems on bank-financed projects. The countries approved include four of the focus countries: **El Salvador, Jamaica, Paraguay, and Peru**.³⁷
- In **Haiti**, there are significant gaps in coordination between donors and the government, with the problem stemming from the government's inability to communicate its priorities clearly. As **Haiti** receives a significant amount of donor assistance—the greatest amount of external assistance compared to the rest of the focus countries—donor practices and donor coordination in general need to be a priority, and improved controls and processes need to be established.

³⁵ PEFA Repeat Assessment for Peru, 2009

³⁶ PEFA Assessment for Guatemala, 2010

³⁷ "IDB approves the use of public procurement systems in eight Latin American and Caribbean countries," IDB press release, Nov 2013

IV. Treasury Operations and Cash Management

The primary objective of treasury operations and cash management is to maintain liquidity so that governments are always in a position to meet their obligations when they become due. Effective cash management entails having a strategy and associated processes in place for meeting a government's financial obligations. This means collecting money due to the government, making payments owed by the government, investing idle cash to earn revenue, and borrowing as needed on the most advantageous terms possible. Cash management is generally the responsibility of a cash management unit housed within the MOF's Treasury Department.

As part of the treasury operations and cash management function, the following sub-dimensions are critical: cash management, treasury single account (TSA) operationalization, and debt management. Table 6 lists leading practices across the key sub-dimensions. **Colombia** and **Peru** were observed to have the least gaps in this dimension and based on historical records, appear to consistently have funds available for meeting their financial obligations. **Haiti**, **Jamaica**, and **Paraguay** face significant challenges, including the recording and managing of expenditure arrears, bank account reconciliation, and taxpayer compliance.

Table 6 – Leading Practices and Observed Gaps for Treasury Operations and Cash Management

Leading Practice		CO	DO	SV	GT	HT	HN	JA	PY	PE
Cash Management	Funds are consistently available to meet expenditure obligations.	IG	SG	MG	MG	SG	MG	SG	MG	IG
	Expenditure arrears are minimal and properly recorded.	MG	MG	SG	SG	SG	MG	SG	SG	MG
	Cash flow forecasting is done on a monthly basis, and includes cash inflows/ outflows including debt.	IG	SG	MG	IG	SG	MG	MG	MG	IG
	Tax arrears are minimal and properly managed and recorded.	SG	MG	MG	SG	SG	SG	MG	SG	MG
	Effective collection of tax obligations.	SG	SG	MG	MG	SG	MG	SG	SG	MG
TSA Operationalization	TSA implemented and government accounts consolidated.	MG	SG	MG	MG	SG	MG	SG	SG	MG
	Bank account reconciliation of the TSA is performed and reported on a daily basis.	MG	SG	SG	MG	SG	MG	MG	SG	IG
Debt Management	Debt is recorded and managed consistently.	IG	MG	MG	MG	SG	IG	SG	MG	IG

Cash Management – Underlying the budget execution process is the concept of cash management. Its consistent functioning is critical to the implementation of government programs as planned in the national budget. In order to make acquisitions, pay vendors, and pay wages to employees, a government must have money available in the right place at the right time. Cash management processes and systems differ widely in LAC. The most significant gaps were observed in the management of expenditure arrears, TSA implementation, and effective collection of tax obligations.

- At central level MDAs, stronger cash flow projections were observed in **Colombia**, **Guatemala**, and **Peru**. The cash flow projections in these countries provide a more accurate reflection of MDAs' monthly cash needs.

- Bank account reconciliation of government bank accounts is performed and reported on daily by the central bank in **Colombia, Guatemala, and Peru**. In these same countries, the fiscal position and account balances are reported daily to the Treasury. With daily reporting of the fiscal position and account balances, cash management is more predictable, and the cash management unit is better able to prioritize payments.
- The development of electronic procurement modules and integration with the government FMIS has improved cash management, cash flow forecasting, and reporting. This is the case in **El Salvador, Guatemala, and Jamaica** (although the latter is less developed).
- A trend in the region is the high level of expenditure arrears, as is the case in **El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Paraguay**. In **Jamaica**, there is no centralized reporting on the status of unpaid bills and expenditure arrears, which is also a gap in its accounting and financial reporting. To help avoid the accumulation of arrears, governments must enact commitment controls which help them to better forecast cash needs.

Treasury Single Account – A TSA is an essential tool for successful government cash management. A TSA is a bank account, or a set of linked bank accounts, through which the government transacts all of its receipts and payments, which allows the central finance authorities to determine the government’s consolidated cash position at the end of each day. There are different approaches to structuring a TSA; yet, in the majority of the countries assessed, the operational authority of the TSA is with the MOF. Across the LAC region, there is great variety in the level of implementation and sophistication of TSAs.

- In countries with well-developed TSAs, particularly **Colombia, Guatemala, and Peru**, the MOF receives real-time information on the government’s fiscal position.
- Implementation of the TSA is not complete in **Dominican Republic, Haiti, or Jamaica**. In these countries, there are still large numbers of unlinked government accounts in use. **Paraguay** faces the most significant gaps in this area, as TSA coverage is limited. The government still has more than 180 operational bank accounts, which are unlinked and managed by financial units at the central level.³⁸
- **El Salvador** has been implementing a centralized payment system in more than 80% of the central government. As of April 2014, the TSA is nearly fully operational.
- In **Jamaica**, the TSA now includes the Ministries of Education, Health, and Justice. The remaining national MDAs were scheduled to be added in March 2014.
- In **Haiti**, the IMF and the MOF have been working toward full TSA implementation, and have already closed 300 out of 871 inactive government accounts. The government has initiated action to consolidate the remaining accounts under three different TSA-linked accounts (for revenue, investment, and operating expenditures).³⁹
- Another challenge is incompatibility between the FMIS and the TSA in **El Salvador, Honduras, and Paraguay** (or planned TSA in the case of El Salvador and Paraguay). The way the FMIS are currently structured and the way the TSAs are designed make it impossible to capture transaction data appropriately.
- Although a TSA is used, WB has found that the use of trust funds in **Guatemala** has led to the circumvention of Organic Budget and Procurement Laws, because cash resources managed by these vehicles are not integrated into the TSA. It is therefore possible to execute the budget outside of the core accounting system, even though the FMIS is well equipped to carry out budget execution and ensure automated controls.⁴⁰

³⁸ PEFA Repeat Assessment for Paraguay, 2011

³⁹ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

⁴⁰ Guatemala Public Expenditure Review, WB, 2013

Debt Management – When revenues do not provide adequate funds to meet a government’s current or planned financial obligations, it will either need to depend on reserves or incur debt. According to the IMF, public debt management is the process of establishing and executing a strategy for managing a government’s debt in order to raise required funds, achieve risk and cost objectives, and meet other government goals. The primary task of a government debt manager is to incur debt at the lowest possible borrowing costs. Prudent debt management requires consolidating these activities at the central level into one entity so that structuring of debt (in terms of maturity, currency, repayment terms, and levels of debt) is monitored. Sound debt management requires information-sharing between debt managers and fiscal and monetary authorities, transparency and accountability mechanisms, and the availability of tools for cash flow forecasting, debt recording, and reporting. Debt data information systems have been implemented throughout the region, helping to consolidate debt information for better management. However, information-sharing is an obstacle across the focus countries due to lack of FMIS integration, so debt reports often provide different figures. Frequent reconciliations are required to ensure that data is accurate.

- An emerging practice across the region is the implementation of debt data information systems and regular reporting on debt portfolios. In **Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Paraguay, and Peru** these systems have been implemented, and as a result, there is more complete information available on internal and external debt.⁴¹ All of these countries received high PEFA scores for recording and reporting of public and external debt (see Table 13 in Annex 1).
- **Honduras** demonstrated infrequent gaps in recording and managing cash balances, debt, and guarantees; there are monthly reconciliations, and weekly, monthly, quarterly, and annual reports that are deemed comprehensive and of high quality.⁴²
- **Dominican Republic** maintains accurate and reliable records on external public debt, and according to the latest PEFA, MOF performs yearly analyses on the sustainability of its public debt. However, there are gaps on the reporting of internal public debt due to issues with information-sharing between MOF and the Central Bank.⁴³
- Similarly, in **Jamaica**, data on public debt are generally considered of high quality, with comprehensive reports produced quarterly and annually. Foreign debt records are complete, updated on a monthly basis, and reconciled on a semi-annual basis. Domestic public debt is also updated and reconciled on a monthly basis. But other non-guaranteed public debts recorded by MDAs and state-owned enterprises are either not adequately registered through a centralized database or not reported at all.⁴⁴
- In **Guatemala**, debt management is performed by MOF and the Central Bank, and despite using different applications, information is monitored daily, updated monthly, and reconciled twice a year. In **El Salvador**, on the other hand, debt management is monitored using a module of the FMIS, but reconciliations are not performed regularly; there are only informal validations and verifications.⁴⁵
- **Haiti** faces greater challenges in this area. In **Haiti**, debt management is performed by the Central Bank and the Budget Directorate using an FMIS database; however, as of the 2011 PEFA Assessment, the database was not up to date and debt management is done on a manual basis instead.⁴⁶

⁴¹ Internal debt is owed to lenders within the country and external debt is owed to foreign lenders.

⁴² PEFA Assessment for Honduras, 2012

⁴³ PEFA Assessment for Dominican Republic, 2012

⁴⁴ PEFA Assessment for Jamaica, 2013

⁴⁵ PEFA Assessment for El Salvador, 2013

⁴⁶ PEFA Assessment for Haiti, 2011

V. Procurement

Public acquisition, or procurement, is the process by which public funds are used by public entities to purchase goods and services. Procurement plays a fundamental role in how effectively and efficiently a government is able to acquire goods and services. WB estimates that approximately 30% to 50% of a country's expenditures flow through public procurement systems. At the same time, public procurement is also the government activity most vulnerable to corruption.

In a centralized procurement system, a single procurement unit is responsible for procuring goods and services for all central government MDAs, and possibly subnational level MDAs as well. Under a centralized procurement system, MDAs may still have autonomy to purchase some small items that fall under a threshold determined by law. In a decentralized system, MDAs procure their own goods and services through institutional procurement units. Most focus countries are moving toward a decentralized procurement system. It is important for governments to maintain appropriate national procurement regulatory frameworks, and for budget authorities to maintain planning and coordination strategies, standardized procurement operations, supplier and contract management, and information systems that incorporate national legislation and provide detailed guidance on the roles and responsibilities of government institutions. General trends across the focus countries in this dimension include the increased use of web-based procurement portals, relatively transparent bidder selection processes, and partially integrated procurement platforms with the FMIS.

Table 7 lists leading practices across key sub-dimensions for procurement. Significant challenges were most observed in governments' ability to prepare procurement plans on a multi-year basis that are an accurate reflection of actual MDA needs, as well as awarding contracts in an transparent manner that follows pre-determined criteria.

Table 7 – Leading Practices and Observed Gaps for Procurement

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
Procurement Operations	MDAs prepare annual procurement plans that accurately reflect the needs, objectives, and budget allocations established by the national budget.	SG	SG	SG	SG	SG	MG	SG	SG	MG
	Multi-year procurement plans are prepared.	SG	SG	SG	SG	SG	SG	SG	SG	SG
	There is an appeals system in place to challenge selection decisions.	SG	SG	SG	SG	SG	SG	MG	MG	MG
Procurement Information Systems	E-procurement and open tender methods and procedures are followed.	MG	SG	SG	SG	SG	SG	SG	SG	SG
	The procurement system is sufficiently integrated with the financial management system	MG	MG	SG	MG	SG	SG	SG	SG	IG
	Existence of electronic interface between procurement and financial management information systems.	MG	SG	SG	MG	SG	SG	SG	SG	MG
Supplier and Contract Management	Contracts are awarded based on predetermined criteria.	SG	SG	MG	SG	SG	SG	SG	SG	MG

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
	Information is provided on all major contracts, and is readily available online. Tender awards are published.	SG	MG	MG	SG	SG	MG	SG	SG	MG
	There is a preferred supplier list to avoid re-contracting poor performing contractors.	MG	MG	IG	SG	SG	MG	IG	SG	IG
	Contract management procedures are clearly defined for inspection, acceptance, quality control, contract review, and amendments.	MG	SG	MG	SG	SG	MG	SG	SG	MG

Procurement Operations – Procurement operations encompass the entire acquisition process, from a needs assessment (including planning and budgeting) to bidding, contracts management, and payment. Because this area contains the sensitive process of bidder selection, scrutiny of procurement operations is essential to mitigate the high levels of risk and deviations from leading practice. Procurement operations should be transparent, follow internal control frameworks, and allow for an open and competitive bidding environment.

- Procurement planning generally needs improvement across the focus countries. In **Colombia, Dominican Republic, El Salvador, Guatemala, and Haiti**, central governments do not take into account the needs of MDAs. Plans are often not completed in a timely fashion and are not realistic in terms of budget availability. MDAs use a baseline approach to procurement planning using the previous year’s plan which may cause waste and divert resources away from actual needs
- Non-competitive public procurement approaches are overused in some countries in the region, particularly **Dominican Republic, Guatemala, Haiti, Jamaica, Paraguay, and Peru**. In **Jamaica**, a provision in the procurement regulations allows unsolicited proposals to be submitted to MDAs. In the past, this loophole has been used to award contracts without sufficient competition. There are efforts underway to close this loophole in the regulatory framework.^{47, 48} The abuse of direct awards and direct purchasing has been observed in **Dominican Republic, El Salvador, Guatemala, Haiti, Paraguay, and Peru**. In many instances, this takes the form of MDAs issuing emergency tenders for non-emergency circumstances, ultimately reducing competition for the bidding process.
- In **Dominican Republic**, tendering options include a lottery for public works, which is the random award of a contract between participants who meet the requirements for the execution of works subject to design and a predetermined price. This method has been assessed as risky and susceptible to corruption.⁴⁹
- There are significant gaps in the process by which bidders are chosen and documented in all focus countries. Bidder selection is not based on clear criteria or a selection matrix, and there are cases when bid evaluators lack relevant technical capacities to understand the proposals. **Peru** is attempting to remedy this problem by providing rigorous training for thousands of civil servants as well as the private sector.
- Another factor that limits competition in the bidding process is favoritism toward domestic bidders. This was observed in **Dominican Republic, Paraguay, and Peru**, where large public tenders are not adequately announced to international bidders and the legal framework often makes registering foreign companies cumbersome.

⁴⁷ PEFA Assessment for Jamaica, 2013

⁴⁸ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

⁴⁹ PEFA Assessment for Dominican Republic, 2007

- **Dominican Republic, Guatemala, Honduras, Haiti, Paraguay, and Peru** stand out for having weak supervisory organs for public acquisitions. For example, the **Guatemalan** public procurement system does not have an administrative body to address complaints or investigate infringements in the public procurement process. This function has to be carried out through the court system, and as such, is subject to the limitations of the judicial system. There are many delays, few cases filed are actually tried, and there are very few convictions compared to the number of processes opened.⁵⁰
- In **Colombia, Haiti, Honduras, and Jamaica**, procurement sanctions are not effectively enforced due to a lack of political will, a lack of proper administrative procedures, and lack of mechanisms to enforce the law.⁵¹ There is also a weak appeals system for contesting selection decisions in these countries, which increases the risk of improper awards going unchallenged.

Procurement Information Systems – Procurement information systems are a critical element of the procurement process. They improve the transparency and expediency of the entire process by creating a more robust and timely link between finance and procurement. This has been an area of concentration for development partners, as there are significant gaps across the region. Many focus countries still lack integration between procurement modules and budget execution systems.

- The majority of the focus countries have progressed toward implementing electronic procurement systems to assist with operations and to disseminate information on tenders and public acquisition. With WB assistance, **Colombia** is in the process of rolling out an electronic procurement platform that will support MDAs in their procurement and contract administration, and will allow for the tracking of public tenders. Electronic procurement systems have also been implemented in **El Salvador, Guatemala, Jamaica, and Paraguay**.
- **Peru** has an electronic procurement platform to track ongoing procurements. All government ministries (central and regional) are required to register an entry in the system when they issue calls for tenders. The platform is continuously upgraded and improved; an interface for online auctions is being developed, which will make the platform an electronic transaction system as well.
- Some countries use separate subsystems for procurement operations. **Dominican Republic, Haiti, and Paraguay** lack a module in their FMIS to link the procurement and budget execution functions. However, **Dominican Republic and Paraguay** have made significant progress: both countries now have a public web-based portal that alerts bidders of new procurements and provides information on the status of tenders so that bidders can track their potential projects and plan accordingly. This increases transparency and the likelihood that bidders will be prepared to perform when the contract is awarded.
- Generally, a lack of integration exists between the finance and procurement functions, which in some cases, such as **Colombia, Guatemala, Haiti, and Paraguay**, allows tenders to be issued without a commitment of funds. **Haitian** entities often make payments before delivery of goods or services has been guaranteed. In **Colombia**, the public procurement system is not well integrated with the FMIS due mainly to inconsistencies between the budgetary and procurement frameworks.

Supplier and Contract Management – Supplier and contract management entails making the supplier selection process efficient, maintaining oversight over the selected contractors, carrying out periodic reviews of work performed, and monitoring contract performance to ensure that the vendor is meeting the deadlines and quality specifications defined in the contract. Rules, regulations, policies, and procedures governing these processes should be documented in contracts. To ensure proper distribution of responsibilities, all reports and other documents associated with all phases of contract management and

⁵⁰ Guatemala Public Expenditure Review, WB, 2013

⁵¹ USAID PFMRAF Stage I Rapid Appraisals for Colombia (2012), Haiti (2013), Jamaica (2012); PEFA Assessments for Honduras (2012), Jamaica (2013)

verification should be signed by both the individual(s) who implements the action and by a member of management.

- In **Colombia, El Salvador, Jamaica, and Peru** a preferred supplier list is used to prequalify reliable suppliers and maintain close contact with high-performing companies. This can be useful to improve organization and timeliness of smaller procurements. Short-listing suppliers that perform well also helps ensure that poor performing contractors are not used repeatedly.
- In **Peru**, the registry of government suppliers facilitates supplier management. Suppliers are divided into five categories: goods, services, consultants, executors, and blacklisted. Suppliers register subject to conditions, such as eligible quantities and geographic areas, and registration is good for one year. The system has greatly improved the government's ability to select qualified bidders.
- **Dominican Republic, Guatemala, Haiti, Honduras, and Paraguay** have more significant gaps in their usage of preferred supplier lists, as records are not adequately maintained, updated, properly distributed, or reliable. Governments in these countries have generally had a difficult time implementing a registration requirement for suppliers.
- Monitoring and tracking of contracts is poor in **Guatemala, Haiti, and Paraguay**. Receipt of procured goods is not consistently tracked, manually or electronically. Combined with the lack of integration between budget execution and procurement modules, this can result in non-payments or payment without delivery. **Peru**, on the other hand, uses its FMIS platform to oversee ongoing procurements, and government officials continuously receive training on procurement guidelines; nevertheless, the monitoring process requires improvements.
- In **Colombia**, the electronic procurement system being developed will serve as both an informational database to citizens on government acquisition, as well as a transactional platform that supports MDAs in their procurement and contract administration (and interface with the remaining FMIS subsystems).
- In **Paraguay**, contract compliance control and oversight mechanisms are largely ineffective. The country is experiencing difficulty with implementing contract-monitoring and delivery verification systems. However, the procurement oversight body is in the process of implementing a contract execution-monitoring module, which has the potential to improve MDA ability to identify compliance and execution issues before they have an adverse effect on service delivery.

VI. Accounting and Financial Reporting

Accounting is the process of recording, classifying, and summarizing financial transactions for an organization, including governments. These data are converted into information in the form of financial reports and financial statements that are relied upon by interested parties for decision-making purposes. The information obtained from the accounting process must be accurate, timely, and verifiable to enable informed decision-making. To gauge how efficiently and effectively resources are allocated and used, PFM practices should emphasize: (i) the transparency of reporting and (ii) accountability for how resources are allocated and used.

Within this dimension, particular focus is given to the critical sub-dimensions of national accounting systems, financial reporting practices, and adoption of International Public Sector Accounting Standards (IPSAS).⁵² Table 8 lists leading practices across the key sub-dimensions. Observations include a wide variety of accounting and financial reporting practices, systems, strengths, and development opportunities in the region. **Colombia, Honduras, and Peru** have the least significant gaps observed in this dimension, particularly with regard to national accounting standards. The greatest gaps in accounting and financial reporting practices occur in the conformity of financial reports to international standards; **Dominican Republic, Haiti, Guatemala, and Paraguay** all score poorly in the PEFA in this area, implying that there are considerable weaknesses in the government's ability to provide sufficient information on public resources distributed to service delivery units at the central and subnational levels.

Table 8 – Leading Practices and Observed Gaps for Accounting

Leading Practice		CO	DO	SV	GT	HT	HN	JA	PY	PE
National Accounting Systems	Harmonized accounting standards at national and subnational levels.	MG	MG	MG	MG	MG	IG	MG	MG	MG
	Accounts are reconciled regularly and in accordance with an established timeframe.	IG	MG	MG	IG	SG	IG	SG	MG	IG
Financial Reporting Practices	Financial reports conform to international reporting standards.	MG	MG	MG	MG	MG	MG	MG	MG	MG
	Annual reports are produced and distributed to MOF and spending agency stakeholders.	MG	SG	MG	SG	SG	MG	MG	MG	MG
	Actual spending compared to budgeted spending and variances are identified and analyzed.	MG	MG	MG	MG	SG	MG	MG	SG	MG
IPSAS	IPSAS is implemented or is in the process of being implemented.	IG	SG	MG	MG	SG	IG	MG	SG	IG

National Accounting Systems – Sound PFM systems establish national accounting standards and regimes to harmonize accounting and financial reporting across the public sector. They also facilitate the reporting of government finance statistics (GFS). This is a task monitored and executed by the MOF, as well as a public accounting authority. Accounting rules should define the acceptable accounting standards to be used, such as IPSAS, International Financial Reporting Standards (IFRS), or generally accepted accounting principles (GAAP). The three primary bases of accounting utilized in modern accounting are cash, accrual, and modified accrual/cash bases. Across LAC, there is a wide spectrum of national accounting systems, and there have been significant efforts to improve accounting standards and establish

⁵² IPSAS Board Fact Sheet, 2011, <http://www.ifac.org/public-sector>

clear guidelines for the public sector. There is a trend toward IPSAS adoption and progression towards accrual accounting.

- **Colombia, Honduras, and Peru** successfully adopted national accounting standards across all central level entities. **Colombia's** public sector accounting standards are broadly in line with accrual IPSAS. **Honduras** adopted cash IPSAS in 2011, and is in the process of adopting accrual IPSAS. **Peru** adopted accrual IPSAS standards 1-21 between 2004 and 2006.
- **Dominican Republic** and **Paraguay** have made progress in establishing more unified national accounting systems. The Institute of Certified Public Accountants of **Dominican Republic** gained the legal power to establish accounting standards in accordance with Article 31 of Law 479-08⁵³ in July 2009, which significantly improved the uniformity of public sector accounting practices. In **Paraguay**, the MOF prepares a national accounting standards manual on a yearly basis for all government agencies. The manual guides accounting, reporting, and budget categories.
- The government of **El Salvador** uses accrual GAAP standards and publishes a manual on government finance. The national standards do not fully comply with international standards, though a WB project has IPSAS adoption as an objective for improving transparency.
- **Guatemala** has previously struggled to establish a national accounting system specific to the public sector. The government uses GAAP, but the modified accrual accounting system does not provide for certain regulations specific to public administration. With assistance from the international community, the government is transitioning toward implementing international public sector standards.
- **Haiti** adopted a new General State Accounting Plan in 2006, although not all strategic components of the plan were operational as of the latest PEFA evaluation in 2011.⁵⁴ The implementation of national accounting standards in Haiti has only recently started.
- The government of **Jamaica** utilizes national modified cash accounting standards across central level ministries consistently, but the recording and reporting is characterized by extended delays. Contrary to leading practice, the Accountant General does not regulate accounting policy or guidelines.

Financial Reporting Practices – Financial reports allow governments to explain their use of public funds to constituents (e.g., citizens and the legislature). The reporting of GFS is an essential part of financial reporting for IMF, WB, IDB and other development partners. As defined by the IMF in its government finance statistics manual (GFSM), the system is “designed to provide statistics that enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the general government sector or the public sector.”⁵⁵

- **Colombia, Honduras, and Peru**, use the 1986 version of GFSM, which facilitates the analysis of the operations of a specific level of government and transactions between levels of government, as well as the entire general government or public sector. **Guatemala, Haiti, Jamaica, and Paraguay** have classifications that are based on or similar to the GFSM. In **Dominican Republic**, the economic and functional classifications were formulated jointly and approved by the United Nations and IMF. The information generated is broadly in line with the GFSM.⁵⁶ Adoption of the 2001 GFSM is in the planning stages in **Colombia, Guatemala, Honduras, and Peru**.
- There are different levels of automation for financial reporting in focus countries through their FMIS systems. Automation is relatively high in **Colombia, Guatemala, and Peru**, but still very basic in

⁵³ Throughout this document, references to laws, decrees, and resolutions include the legislation number followed by the year in which it was approved. For example, in this excerpt, Law 479 was approved in 2008.

⁵⁴ PEFA Assessment for Haiti, 2011

⁵⁵ Government Finance Statistics Manual, IMF, 2001

⁵⁶ PEFA Assessment for Dominican Republic, 2012

Haiti, where many reports are compiled manually. Without accurate and timely financial reporting, countries run the risk of not having sufficient information for decision-making purposes, and being unable to provide comprehensive financial data to the public. This finding is also confirmed by PEFA Indicator PI-24 (see Table 13 in Annex 1), where **Haiti** received a score of D for the “Quality and timeliness of in-year budget reports.”⁵⁷

- There are weaknesses in the timeliness and reliability of data in financial reports in **Dominican Republic, Guatemala, Haiti, and Paraguay**.⁵⁸ Moreover, public access to these reports is often limited or nonexistent.
- There have been significant gaps in the reporting of revenues in **Colombia, Dominican Republic, and Paraguay**.⁵⁹ Incomplete revenue reporting can decrease budget transparency. In PFM systems with strong discretionary spending powers for executive management, as in **Colombia and Dominican Republic**, this is a particular risk to sound PFM performance.
- All of the focus countries have experienced difficulty with coordination and information-sharing between central MDAs, as well as subnational entities. Lack of FMIS integration prevents uniformity in financial reports.

International Public Sector Accounting Standards (IPSAS) – IPSAS is a set of accounting standards for use by

public sector entities around the world in the preparation of financial statements. The standards are issued by the IPSAS Board, and are based on the private sector IFRS established by the International Accounting Standards Board.⁶⁰ The IPSAS Board is instrumental in promoting the acceptance of and international convergence to IPSAS, and detailing the challenges and benefits to governments adopting IPSAS and accrual accounting. The adoption of IPSAS in LAC is an emergent trend. Whether it is a true adoption of the standards, or a “nominal” adoption of an accounting system, the region is progressing toward accrual accounting, as demonstrated in Figure 3.⁶¹ Cash-based accounting systems have received growing criticism from WB IMF, International Federation of Accountants, and external agencies for the incompleteness and lack of transparency in financial reports.

- Many countries across the LAC region have committed to adopting IPSAS accrual methods, but are at different stages of implementation. **Colombia** and **Peru** are the most advanced of the focus group. In **Colombia**, the government has made a formal commitment to IPSAS and is working on the convergence of its national accounting standards with international standards. **Peru** is further along in IPSAS adoption, as IPSAS Standards 1-17 were

Figure 3 – Government Accounting Standards in the LAC Region



⁵⁷ PEFA Assessment for Haiti, 2011

⁵⁸ PEFA Assessments for Dominican Republic (2011), Guatemala (2010), Haiti (2011), Paraguay (2011)

⁵⁹ PEFA Assessments for Colombia (2009), Dominican Republic (2012), Paraguay (2011); USAID PFMRAF Stage I Rapid Appraisal for Paraguay (2012)

⁶⁰ IASB is the standards-setting body of the IFRS Foundation, <http://www.ifac.org/public-sector>

⁶¹ Figure adapted from “Towards a new era in government accounting and reporting,” PwC, 2013

implemented on January 1, 2004, and IPSAS Standards 18-21 were implemented on March 14, 2006.⁶²

- The government of **El Salvador** utilizes both cash and modified accrual accounting; a WB project has IPSAS adoption as one objective for improving transparency.
- **Guatemala** uses GAAP instead of IPSAS as its public sector accounting regime; however, the government has signaled its intention to adopt accrual basis IPSAS and is in the planning stages of doing so.
- **Honduras** utilizes cash IPSAS for reporting with plans to adopt IPSAS accrual accounting in the near future.
- The government of **Jamaica** is phasing in the implementation of IPSAS accrual accounting, after receiving criticism for lack of compliance with international public sector accounting standards.⁶³
- Unlike their counterparts, **Dominican Republic** and **Paraguay** do not have formal plans for IPSAS adoption, but they do use it as a reference for their national accounting regime. In **Haiti**, the country's public accounting authority has signaled its willingness to adopt IPSAS, but the government requires both financial and technical assistance to do so.⁶⁴

⁶² PEFA Assessment for Peru, 2009

⁶³ PEFA Assessment for Jamaica, 2007

⁶⁴ Action Plan developed by Chartered Accountants Association of Haiti, IFAC, 2013

VII. Internal and External Audit

An audit is a systematic examination of data, statements, records, operations, and performance of an entity for a stated purpose, such as regulatory compliance, operational effectiveness, or financial accuracy. Audits also consider key risk factors facing organizations and potential mitigation strategies. Sound auditing practices and systems are fundamental to a strong PFM system and overall governance in any country.

Internal Audit

Internal audits are conducted by the organization’s own employees or personnel assigned to a permanent role in an organization. IA is often considered the “eyes and ears” of an entity. Internal auditors perform ongoing monitoring and evaluation procedures to assess whether internal controls are functioning within an organization, and focus on accountability obligations to taxpayers and donors. Figure 4 depicts some of the main factors that impact the effectiveness of the internal audit function.⁶⁵ As a global trend, internal audit functions have been moving away from simply serving a regulatory and financial compliance role, to more risk-based, controls-based, management advisory units that examine an entity’s performance.

Figure 4 – Factors Influencing Internal Audit Effectiveness



Elements of internal audit include the legal and regulatory framework, audit standards, and internal audit operations (including available resources and corrective measures). Table 9 lists leading practices across key sub-dimensions for internal audit. As further shown in Table 13 in Annex 1 (PI-21), the focus group is generally lagging against leading international practices. The majority of the focus group countries have not yet adopted an internal audit methodology that examines performance and value for money, and instead continue to focus on accuracy of operations or financial accounts. There has been a positive trend of reform among all countries, as there have been efforts to strengthen internal controls (as **Honduras**, **Jamaica**, and **Paraguay** demonstrate), and even introduce advisory agencies (as **Colombia** has done). Nevertheless, governments need to continue improving their internal controls, audit functions, and corrective measures in order to ensure the efficiency and effectiveness of service delivery.

⁶⁵ Adapted from Mihret and Yismaw, “Internal Audit Effectiveness: an Ethiopian public sector case study,” Addis Ababa University, 2007

Table 9 – Leading Practices and Observed Gaps for Internal Audit

Leading Practice		CO	DO	SV	GT	HT	HN	JA	PY	PE
Legal and Regulatory Framework	Internal audit framework is effective.	MG	SG	MG	SG	SG	IG	SG	SG	MG
	Appropriate professional audit capacity in methodology and standards.	MG	SG	MG	MG	SG	MG	SG	SG	IG
Internal Audit Standards	Use of independent auditors and inspection agencies is a requirement for continued budget implementation and procurement activities.	IG	MG	MG	SG	MG	IG	MG	MG	MG
	Audit standards exist for the review of performance across all aspects of government operations, not solely on compliance.	MG	SG	SG	MG	SG	MG	SG	SG	MG
Human and Financial Resources	Sufficient funding for competent and knowledgeable staff	MG	SG	SG	MG	SG	SG	SG	SG	MG
Corrective Measures and Sanctions	Follow-up on findings and a system to implement recommendations	SG	SG	SG	SG	SG	MG	SG	SG	SG
	Ability to enforce corrective measures in non-compliant MDAs	SG	SG	SG	SG	SG	SG	SG	SG	SG

Legal and Regulatory Framework – In general, all of the countries examined have strong legal and regulatory frameworks for internal audit functions, mandating internal audit offices or bureaus at every public sector entity. However, implementation of internal audit procedures is limited or inconsistent, both at the central and subnational levels.

- In **Colombia, El Salvador, Guatemala, Honduras, Jamaica, and Peru**, all public sector MDAs are legally required to have internal audit offices, and they follow prescribed audit procedures that are in line with international auditing standards. These internal audit functions assess financial accuracy and the effectiveness of internal controls. The internal auditors also maintain either a functional or subordinate relationship with the Comptroller General or the supreme audit institution.
- **Dominican Republic and Paraguay** are currently in the process of strengthening internal audit procedures; the current framework in both countries is not comprehensive and creates the risk of system-wide bypassing of controls and non-transparent, non-systematic monitoring of operations.
- In **Haiti**, internal audits are conducted by the General Finance Inspectorate, but a lack of financial and human resources have limited their number and effect and prevented a thorough review of the most important ministries. The internal audit procedures are not based on international standards.

Internal Audit Standards – Internal audit standards vary across the focus countries with only some in line with international standards as set by the Institute of Internal Auditors.⁶⁶ In general, internal audit units (IAUs) at the central level abide by national auditing standards.

- **Honduras** follows an internal audit framework that is in line with international standards, and the scope of the internal audit function is clearly defined. This provides IAUs with clear instructions and

⁶⁶ Standards are published on the Institute of Internal Auditors website, <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

a standard set of reporting techniques. In PEFA evaluations, **Honduras** scored the highest of the focus countries for the effectiveness of internal audit (see Table 13 in Annex 1).

- In most of the remaining countries, internal audits are limited to verification of financial accuracy, rather than having a risk-based approach. When this is the case, already scarce audit resources do not focus on the effectiveness of controls and instead supervise day-to-day operations. Exceptions include **Colombia, Guatemala, and Peru**, where audits are more comprehensive and examine regulatory compliance as well as operational efficiency.
- **Jamaica** has an Internal Audit Directorate, which oversees IAUs in all central level MDAs. International internal audit standards have been adopted but not implemented well.⁶⁷
- In **Dominican Republic**, internal audit procedures are not systematic or uniform, which hinders their aim of improving the effectiveness of entities' operations. Nevertheless, a new law strengthening internal controls and auditing practices aims to achieve systemic internal audit functionality.^{68, 69}
- In **Haiti**, internal audits are conducted by the General Finance Inspectorate, which follows an internal manual of procedures that is not based on risk evaluations, thereby reducing the effectiveness of the internal audit function.⁷⁰

Internal Audit Operations – In almost all of the focus countries, compliance with the internal audit function is adversely affected by insufficient human and financial resources. Although globally governments are shifting toward risk-based and controls-based auditing, the majority of the focus countries continue to approach internal audit as a means to verify financial accuracy or operational compliance. Moreover, follow-ups to audit findings and implementation of corrective measures are generally not effective, largely due to MDA and IAU capacity constraints. The majority of the focus countries demonstrate significant deviations from leading practices (see Table 9), and no country scored an A in PEFA evaluations for this criterion (see Table 13 in Annex 1). In most countries, internal audit reports reveal similar and recurrent weaknesses in operations year after year, suggesting that recommendations are not implemented.

- **Honduras** is the only country that has established a system to track the implementation of recommendations from internal and external audits. The system tracks recommendations issued, and degree of implementation (as fully-, partially-, or not implemented). As a result, most central MDAs endeavor to implement the recommendations.⁷¹
- The IAUs are not able to complete all planned audits in **Haiti, Honduras, Jamaica, and Paraguay**. Because not all MDAs are audited, there is a risk that non-compliance goes undetected. In **El Salvador**, internal audit is decentralized and affected by budget allocations. Because of this, the circulation of internal audit reports is very limited in most MDAs, and they generally do not contribute significantly to improving operational efficiency. In **Jamaica**, government entities are required to establish IAUs, but both PEFA and USAID evaluators observed that some large ministries do not have audit committees. Many IAUs are hindered by budgetary constraints. This is a significant weakness for the country, as audit committees oversee financial audits and internal controls.
- Although **Guatemala** has a fairly clear and comprehensive framework for internal audit, PEFA evaluators found that independence of some IAUs is relative, and there is little focus on the quality of internal controls. There is no follow-up system in place to implement recommendations.

⁶⁷ PEFA Assessment for Jamaica, 2007

⁶⁸ PEFA Assessment for Dominican Republic, 2012

⁶⁹ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012

⁷⁰ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

⁷¹ PEFA Assessment for Honduras, 2012

- In **Dominican Republic**, IAUs issue audit reports that highlight irregularities in payments and recurring administrative issues, but recommended corrective measures and administrative actions are not prioritized.
- In all focus countries, internal audit at the subnational level varies greatly by region, level of development within the country, and budgetary allotments. In **Dominican Republic**, **Haiti**, and **Paraguay**, for example, there is little to no oversight at the subnational level, as the majority of municipalities do not follow uniform internal audit processes (that is, scope of internal audits are not always specified, clear, or even documented), raising the risk of non-compliance and affecting transparency.

External Audit

Unlike internal audits, external audits are conducted by a third party independent from the organization under audit, such as a country’s supreme audit institution (SAI) or a professional auditing firm. External audits seek to foster financial transparency and accountability, while promoting sound operations and accurate financial reporting to the government oversight bodies. External audits allow governments and donor organizations to ensure proper recording of transactions and appropriate use of public funds and assess the effectiveness of service delivery by government entities. The International Organization of Supreme Audit Institutions (INTOSAI) provides the General Standards in Governmental Auditing and International Standards on Supreme Audit Institutions (ISSAI).⁷² Figure 5 depicts some of the main factors that affect the effectiveness of external audit.

Figure 5 – Factors Influencing External Audit Effectiveness



Table 10 lists leading practices across key sub-dimensions for external audit. As with internal audit, there is a general trend of solid legal and regulatory frameworks, but implementation varies drastically. Practices across scope, nature, and follow-up on external audits vary significantly; overall, fewer gaps in leading practices exist for external audit than for internal audit. In all nine focus countries, there is a relatively autonomous SAI that is constitutionally or legally mandated to maintain independence and conduct external audits of the central government’s finances, but their ability to enforce audit and accountability laws varies greatly. Auditing standards also vary between the countries. Some countries have adopted, or are in the

⁷² Standards are published on the INTOSAI website., <http://www.intosai.org/issai-executive-summaries.html>

process of adopting, international standards, while others (for example, **Dominican Republic, Haiti, and Paraguay**) have their own national standards, which do not follow ISSAI. There is a reform trend in external audit in each of the focus countries, particularly in terms of modernizing auditing standards so that SAIs examine the transparency of transactions and the effectiveness of service delivery, thereby expanding the audit mandate into an assessment of government performance and value for money.

Table 10 – Leading Practices and Observed Gaps for External Audit

Leading Practice		CO	DO	SV	GT	HT	HN	JA	PY	PE
Supreme Audit Institutions	Appropriate professional audit capacity in methodology and standards	IG	MG	IG	IG	SG	MG	SG	SG	IG
	Constitutional guarantee of independence.	IG	MG	MG	IG	MG	MG	MG	MG	IG
	Legislative body plays an oversight role over external audit.	MG	SG	SG	MG	SG	IG	IG	MG	MG
	Unrestricted access given by law to SAI to audit all MDAs and service delivery units that utilize public funds.	MG	MG	MG	IG	IG	MG	IG	SG	IG
	Coverage of audits extends to all MDAs and decentralized entities	MG	SG	MG	MG	SG	SG	IG	SG	IG
Corrective Measures and Sanctions	There is follow-up on findings and a system to implement recommendations.	SG	SG	SG	SG	SG	IG	SG	SG	MG
	SAI has the ability to enforce sanctions for misuse of public funds	SG	SG	MG	SG	SG	MG	SG	SG	SG
Human and Financial Resources	Sufficient resources for competent and knowledgeable staff.	MG	SG	MG	MG	SG	SG	MG	SG	MG

Supreme Audit Institution – In all nine focus countries, the SAI is an autonomous agency at the national level that reports to the national legislature. This means that the external audit function is generally independent, reducing the risk of undue influence during the audit process. The SAI should have the authority to audit, investigate, prosecute, and sanction fraud and misuse of public funds in order to properly meet its function as an oversight body. Its mandate should extend to all public entities. All nine countries’ SAIs are members of INTOSAI. Nevertheless, not all have adopted international standards for external audit functions. If audit processes are not based on international leading practices, then the likelihood increases that non-compliance, fraud, and abuse of funds may not be adequately detected and reported. As with many PFM dimensions, external audit breaks down at subnational levels, due in large part to limited human and financial resources.

- The SAIs in **El Salvador** and **Guatemala** follow government auditing standards consistent with those recommended by INTOSAI. External oversight bodies are independent of the Executive branch and have legal authority to audit, investigate, prosecute, and sanction.
- **Peru** has a relatively large and capable SAI with extensive support at all levels, and the Auditor General has expressed the intent to nearly triple the size of the agency in terms of full-time employees, from 1,200 to around 4,000.
- The systemic guide and processes used by the SAI in **Colombia** use INTOSAI’s standards as a reference, and they were generally found to be comprehensive. The SAI has both audit and prosecutorial legal authority.

- **Dominican Republic** and **Paraguay** are taking actions to strengthen their SAIs and build their capacity, as a majority of MDAs and subnational entities are not currently audited due to understaffing. These SAIs also have limited enforcement abilities.
- In **Haiti**, the SAI has not implemented a manual of procedures or a code of ethics, which makes it difficult for the government to detect risky processes. Due to limited human and financial resources, the SAI has limited enforcement and prosecutorial abilities.
- **Jamaica's** Auditor General has the authority to audit and investigate central government MDAs and local government agencies, but does not possess prosecutorial powers or the authority to enforce the law or sanction breaches of the law. There is a need to strengthen accountability laws and the legal mandate of the SAI.

Legislative Scrutiny of External Audit Reports – The submission of audit reports by MDAs to the legislature, the ability of the legislature to examine these reports on time, and the ability of those entities to implement recommended actions are integral parts of external audit, as these factors generally impact the government's ability to identify and improve any gaps in the PFM system. As dimension PI-28 of the PEFA scores demonstrates, this is by far the weakest area for all nine countries (see Table 13 in Annex 1). None scored above a C+ on their PEFA evaluations, suggesting that the legislature is not acting sufficiently to ensure transparency or monitor the legitimacy of budget decisions. The legislature's oversight mandate is vital to improving any findings in audit reports.

- In 2012, **Honduras** began a follow-up system to ensure that recommendations are implemented. The legislature already conducts public hearings on audit findings and provides recommendations to the executive; this demonstrates an improved role of the legislature as an effective check and balance.
- In most countries, the legislature examines audit reports and proposes recommendations to the executive on the findings. Notable exceptions include **Dominican Republic**, **El Salvador**, and **Haiti**. In **Dominican Republic**, the legislature only issues recommendations in cases concerning special audits. External audit reports are not submitted to the legislature, or published, in **El Salvador**. In **Haiti**, the role of the legislature in the past few years has been limited to approval of draft appropriations laws. To be an effective oversight body, the legislature should assist the SAI in enforcing accountability across the government rather than playing a rubber stamp role.
- In all of the countries where the legislature plays an oversight role (**Colombia**, **Guatemala**, **Jamaica**, **Paraguay**, and **Peru**), it was found that the legislature merely scrutinizes audit findings on the MDA's efficiency to perform their tasks and not on the effectiveness or quality of services delivered (value for money).

Corrective Measures and Sanctions – As with internal audit, almost every focus country has very limited follow-up to findings, with **Honduras** being the notable exception. If legislatures do not act on findings or recommendations, audits lose their purpose of identifying entities that may require further review of operations. Across the focus countries, sanctions are generally non-existent or very difficult to impose, when external audits reveal irregularities in audit reports. Without proper deterrents, it can be difficult to implement measures that improve PFM systems.

- The government of **Honduras** responds rapidly to recommendations that emerge from external audits, with over 90% of the findings from years 2011 and 2012 being implemented.⁷³
- In the remaining eight countries, PEFA evaluators found that there were similar and recurrent irregularities, suggesting that there is very limited follow-up by the MDAs to audit findings. It also suggests that the SAIs have weak enforcement capabilities.

⁷³ PEFA Assessment for Honduras, 2012

- In **Honduras**, the SAI tried to reform the Organic Law to simplify procedures to impose administrative sanctions expeditiously, but the legislature is yet to approve such reforms.⁷⁴
- In **Guatemala**, the law provides the SAI with modern audit procedures, but due to legal ambiguities and scarce resources, it has limited abilities to impose sanctions. Violations of legal norms related to the budget process go largely unpunished.⁷⁵
- In **Jamaica**, oversight bodies do not have the power to prosecute or sanction, or at times even to enforce the laws. There is a lack of criminal sanctions for breaches of the law, which undermines many anti-corruption efforts.⁷⁶
- In **Paraguay**, the SAI cannot impose sanctions if a public institution fails to implement the standard internal controls or if audits reveal irregularities. The Integrity Department, which follows up with public offices that received audit recommendations, is a relatively new institution and is unable to impose any sanctions.

⁷⁴ Ibid.

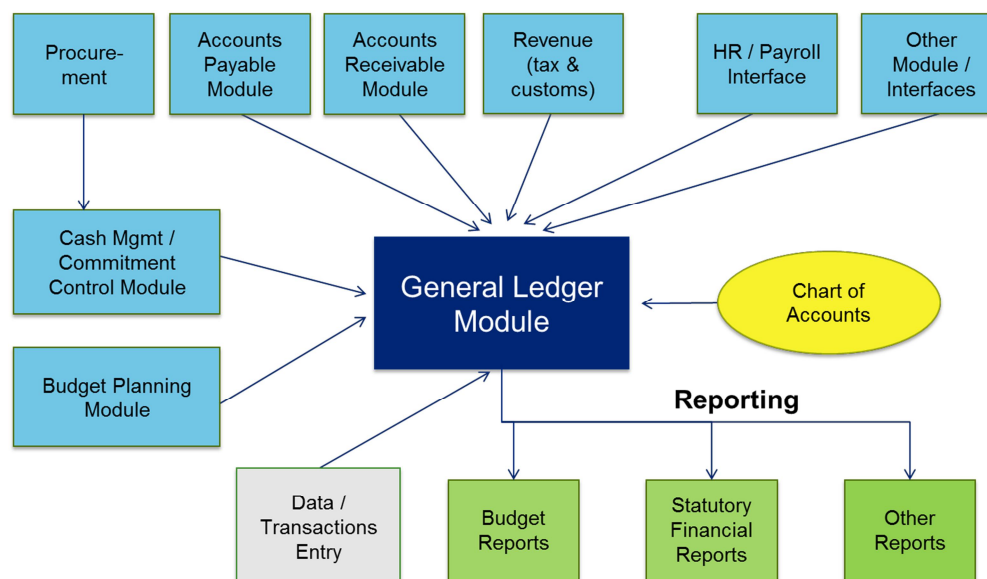
⁷⁵ Guatemala Public Expenditure Review, WB, 2013

⁷⁶ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

VIII. Financial Management Information Systems

FMIS are powerful tools that enable governments to plan, execute, and monitor the budget. An FMIS can help to automate key components of the budget execution and accounting processes and provide information to facilitate the budget preparation process. Figure 6 depicts the integral role that the FMIS plays throughout the entire PFM system and how it interrelates with the many different facets of a country's PFM system. A strong and successful FMIS interfaces with modules for the budgeting, execution, public acquisition, debt management, policy development, and other functions of a central government. If the FMIS does not interface properly, there will likely be gaps in some PFM dimensions, resulting in negative impacts on both the FMIS and PFM system.

Figure 6 – Typical FMIS Structure⁷⁷



One of the keys to successfully implementing an FMIS is having all the prerequisites in place, including: sound budget classification categories; a secure country-wide communications infrastructure; political will; a cash management function; a strong control and monitoring framework; and a TSA, among others. Table 11 lists leading practices across key sub-dimensions for FMIS, including implementation, scope, and reporting capability. FMIS is a dimension where all focus countries still require financial and technical assistance in order to implement leading practices. **Guatemala** is the regional leader in this dimension, as WB has been supporting PFM reforms since 1997, with a focus on modernizing the FMIS. Implementation in most of the remaining countries (except **Haiti**, where systems are very basic and not fully integrated) reaches almost all central level MDAs, but integration with FMIS at the subnational level is quite poor; no country has successfully rolled out FMIS to all subnational entities. There is also great variability in functionality across various PFM dimensions. For most countries, the FMIS covers the core PFM systems of budget, treasury, and accounting; however, integration with procurement and HR management subsystems is limited.

⁷⁷ Integrated Financial Management Information Systems: A Practical Guide, USAID, 2008

Table 11 – Leading Practices and Observed Gaps for FMIS

Leading Practice		CO	DO	SV	GT	HT	HN	JA	PY	PE
Coverage	FMIS covers all MDAs at central levels of government and integrates subnational entities.	MG	SG	SG	MG	SG	SG	SG	SG	MG
	Budget, treasury, and accounting modules are fully integrated and operational.	IG	MG	IG	IG	SG	IG	MG	SG	IG
	Procurement and asset management are integrated with the FMIS.	MG	SG	SG	MG	SG	IG	SG	SG	MG
	HR/payroll functionality is integrated with the FMIS and budget process.	SG	SG	SG	MG	SG	MG	SG	SG	MG
Reporting Capability	FMIS has automated reporting functionality.	MG	MG	SG	IG	SG	MG	MG	SG	MG
	FMIS can produce financial reports compliant with international financial reporting standards.	MG	SG	MG	IG	SG	SG	MG	MG	MG

Coverage – Integrating different functions and entities within a shared FMIS or linked subsystems provides public administrators with tools to plan, manage, and control public resources. Substantive coverage and integration of systems for all central and subnational entities provides for a more verifiable system. All of the focus countries utilize FMIS, but the degree of coverage across central government MDAs varies drastically. Modules for budget execution, treasury, and accounting are generally well-integrated in all central level MDAs. However, most focus countries lack integration with additional modules for payroll or procurement management, and subnational entities are not integrated into the national FMIS.

- WB developed SIAF (a customizable FMIS platform) specifically to roll out a fully integrated, consistent system throughout the region. This vision has not yet come to fruition, although SIAF has been fully implemented in **Guatemala, Paraguay, and Peru**.
- SIAF is part of the **Guatemalan** government’s core accounting suite of applications. It covers the budget, treasury, and accounting areas and is used in most public sector entities, including municipal governments. The system operates on a web platform that enables users to interact with the system in real time and produces online reports, many of which are publicly accessible. The system also enables sectors to track and assess some financial and administrative processes through an integrated module. SIAF is partially linked with the e-procurement system, but the interface is flawed and not fully functional, particularly with regard to financial information in the module adapted for local governments (SIAF-GL).
- In **Colombia**, the FMIS integrates the budget, treasury, and accounting areas, but does not integrate the procurement or HR/payroll systems. The FMIS is used to execute about 85% of the national budget in real time. The remaining government entities submit their own data on budget execution. This data is then input into the system on a monthly basis. The FMIS standardizes critical financial management processes, controls, and databases, such as those for the execution of revenue and expenditure budgets, cash planning and treasury operations, and accounting records. An upgraded version is expected to provide additional functionalities (such as budget formulation, procurement, contract management, and control of fixed assets), expand coverage to the rest of the national budget, and include a web-based technological platform. Subnational coverage is incomplete; municipalities in remote areas still lack basic implementation of any FMIS platforms for budget management.
- Like Guatemala, **Paraguay** has implemented SIAF however it does not cover many decentralized entities or state-owned enterprises. Further, **Paraguay** has faced more challenges than Guatemala in its implementation, as the FMIS was not designed for integration with the planned TSA. A module

has been designed to rectify this problem, but these plans have not yet been implemented due to a lack of stakeholder support within the Paraguayan government.⁷⁸

- **Dominican Republic**'s FMIS includes modules for budget execution, public investment and credit, treasury, accounting, and public debt management. However, the FMIS does not interface with the procurement or HR systems. Furthermore, **Dominican Republic** lacks an action plan to increase the scope of FMIS and the range of modules that interface with the system.
- **El Salvador** uses a proprietary FMIS in all central level MDAs and 22 of the largest municipalities. SAFI includes modules for budget execution, public investment and credit, treasury, accounting, and public debt management.⁷⁹
- **Honduras**' FMIS includes modules for budget execution, public investment and credit, treasury, accounting, and public debt management. The HR management module is integrated into the system. The system is also linked to the procurement module which allows for contract management functionalities.⁸⁰
- The FMIS in **Jamaica** facilitates financial reporting through a variety of products, depending on the agency. However, the HR management, payroll, procurement, and asset management modules have not been integrated or linked to the FMIS. Payroll is managed through 17 different systems.⁸¹
- The government of **Haiti** utilizes FMIS, but there is only partial integration between the budget preparation, execution, and accounting modules. It is used effectively only for central government operational expenditures at selected central MDAs. Various non-integrated applications are used for different functions and by different entities. No integration exists between the revenue collection institutions and budget execution modules, or between the treasury subsystems and HR databases.⁸²

Reporting capability – Countries that implement integrated FMIS systems can greatly improve reporting capabilities in all areas of the PFM system. However, those with limited implementation of FMIS may face reporting challenges in some sectors, as is the case in most focus countries.

- In Peru, SIAF has been implemented throughout both the national and regional levels. All local governments record and report budget and financial information through a modified SIAF module, which has enabled them to comply with the requirement to send accounting information to the National Directorate of Public Accounting on a quarterly basis.
- Limited coverage of the FMIS in **El Salvador** has adversely affected reporting, particularly in the most remote locations. Municipalities without access to the municipal FMIS system must report data to the consolidated government accounting system using forms prepared by the Directorate General of Government Accounting.
- Even for **Guatemala**, the most advanced of the countries in this dimension, reporting could be a challenge if the government adopts IPSAS, as the current FMIS has limitations and would not support the new accounting regime.
- In **Haiti**, the quality and accuracy of reporting is low. There has been partial FMIS coverage at the national level, with support from both USAID and the EU. The MOF is currently assessing its current systems, which will inform a roadmap to achieve full integration of the central government's FMIS. The government is planning to add all other key accounting applications onto the network and interface them in real-time to permit the production of comprehensive financial statements.

⁷⁸ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

⁷⁹ PEFA Assessment for El Salvador, 2009

⁸⁰ PEFA Assessment for Honduras, 2012

⁸¹ PEFA Assessment for Jamaica, 2013

⁸² USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

IX. Human Resources

The human resources (HR) dimension mainly examines the legal and regulatory framework of civil service laws, as well as the application of proper payroll controls. Governments should establish and enforce HR management strategies, policies, and systems that support the various MDAs' functions. These policies and practices should motivate, support, and protect employees, but also ensure that hiring and retention are transparent, and that there are strict controls on payroll systems to mitigate the risk of errors and improper payments. The wage and salary bill is often the largest expenditure category for any government, and effective payroll management is required to mitigate misappropriation and corruption. Government payroll is based on a personnel database, which provides a list of all staff that should be paid each month. Persons listed in the database should be verifiable against approved budgeted amounts and individual personnel records.

Table 12 lists leading practices across key sub-dimensions for HR, particularly in regards to civil service laws and systems around payroll. Overall, this is an area where the focus countries do not conform to leading practices. There are significant opportunities to strengthen the regulatory framework, update codes of ethics for civil service employees, and harmonize payroll controls and HR management practices.

Table 12 – Leading Practices and Observed Gaps for HR

	Leading Practice	CO	DO	SV	GT	HT	HN	JA	PY	PE
Civil Service Laws	Consistent civil service laws, procedures, and codes of ethics	MG	SG	MG	SG	MG	SG	SG	SG	SG
	HR administration is delineated in a civil service law.	MG	MG	IG	MG	MG	SG	SG	MG	MG
Payroll	Standardized controls exist to limit possible system abuse.	SG	SG	MG	IG	MG	MG	SG	SG	SG
	Coordination within information systems, particularly between employee databases and transactional/payroll modules (FMIS).	MG	SG	IG	MG	SG	MG	SG	SG	SG

Civil service laws – Some of the countries examined maintain decentralized civil service laws wherein each MDA is responsible for setting its own procedures and internal controls regarding HR management, rather than maintaining a centralized set of rules. Although it does not necessarily deviate from leading practice, a decentralized approach makes it more difficult to identify potential gaps in the existing legal framework. For example, in some of the countries examined, there are public entities that do not adhere to budgeted amounts for salaries, or that use short-term and temporary contracts rather than permanent staff to circumvent civil service regulations and/or budget constraints. This can lead to problems with budget execution.

- In **Guatemala, Haiti, Jamaica, and Paraguay**, there are no standard procedures across public entities for hiring civil service staff, and other civil service laws are rarely applied, even if they are in place. In 2008, the Government of **Paraguay** presented a four-year strategic plan that includes key areas of civil service development, but uniform procedures are yet to be put into effect.
- In **Haiti**, MDAs often employ contract and temporary staff, bypassing many civil service laws. Recruitment is often done without adhering to budgeted amounts and there are no repercussions or sanctions for over-recruiting.⁸³

⁸³ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

- Public entities in **Jamaica** consistently hire contractors for public service positions. In addition to potentially circumventing civil service laws, this practice affects budget execution. Contractors' payroll is managed through different systems than that of civil service employees. As a result, HR management and payroll are unlinked, making the system prone to errors and manipulation.⁸⁴
- In **Colombia**, many government workers are hired under short-term contracts, increasing the amount of time, effort, and funding required to re-hire them every year. There are individuals who have been working for the government on a provisional basis for 20 years, despite the fact that Colombian law allows provisional status for a maximum period of four months.⁸⁵

Payroll – Government payroll is based on a personnel database, which provides a list of all staff that should be paid each month. Persons listed in the database should be verifiable against the approved establishment list (i.e., the list of positions that have been budgeted for) and individual personnel records. In several countries, these databases are not directly linked or updated regularly and systematically to reflect new hires, terminations, retirements, and transfers. As a result, so-called “ghost employees” who have been terminated, left the institution, or are perpetually absent, could continue to receive payments through the payroll system, and the inclusion of multiple entries of a single civil servant could allow them to receive multiple payments. Payroll controls include procedures for providing payment to employees and built-in verifications to ensure that employees are properly identified before payment. The focus countries vary greatly in the strength of their payroll controls. **El Salvador** and **Peru** stand out as having particularly strong controls.

- In **El Salvador**, all public sector entities manage HR through the same information technology (IT) system (SIRH), and all transactions that have payroll implications must be approved through the SIRH and communicated to the Treasury for respective action. This keeps tight control over the various MDAs' payrolls, and prevents double entries and erroneous payments.
- In **Honduras**, the HR management system is used as a registry for employees at most central MDAs and some decentralized institutions, but some important central entities are excluded. Payments are authorized exclusively via the FMIS. Although not all personnel and payroll records are directly linked, any personnel changes are pre-approved, clearly documented, and verified against information from the previous month via the FMIS.⁸⁶
- On the other hand, **Haiti** has no standard procedures for payroll controls, resulting in many incidences of salary payment arrears as MDAs exceed their labor allocations.⁸⁷ The Treasury manages payroll through SYSPAY, the payments sub-system, but Treasury does not have access to personnel databases or contract personnel lists, which are maintained separately by individual entities.

One of the key drivers of fragmentation in payroll systems is poor coordination between the entity responsible for paying salaries, based on the personnel database, and the individual MDAs making personnel decisions. If updates are infrequent, then there is a higher risk of making erroneous salary payments. In the IT systems used for HR management by the nine focus countries, there is a consistent lack of centralization and interface between personnel databases and the payment function, denoting poor FMIS integration.

- **Colombia, Dominican Republic, Jamaica, Haiti, Paraguay, and Peru** have struggled to integrate their employee databases with the FMIS used for budget execution. **El Salvador, Guatemala, and**

⁸⁴ PEFA Assessment for Jamaica, 2013

⁸⁵ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

⁸⁶ PEFA Assessment for Honduras, 2012

⁸⁷ PEFA Assessment for Haiti, 2011

Honduras are more advanced, as they have at least partially linked their employee databases with the FMIS.

- Only **El Salvador** maintains a single centralized database of government personnel utilized by all public sector entities for payroll purposes. The personnel database is not fully integrated with the FMIS, but there is an interface mechanism that transfers information.
- In **Colombia**, there is a consolidated database for central government personnel (which is not linked to the FMIS), but updates are inconsistent and its use by MDAs is not compulsory. As a result, the subsystem is not comprehensive and is used mainly for statistical reporting.
- **Peru** does not maintain a centralized database (each MDA uses its own), but because payrolls are authorized through the FMIS and there are various levels of supervision, changes are realized immediately when there are any modifications to the databases.⁸⁸
- **Jamaica** has a personnel register that is not linked to payroll management subsystems; moreover, there is no procedure to collect data on government staff as there are several different subsystems used for personnel databases and payroll management.

Most of the countries examined also lag behind leading practice in terms of the frequency and effectiveness of payroll reconciliations and internal payroll audits. This creates a higher risk that non-compliance, fraud, and abuse of funds may not be detected on a timely basis.

- In **Colombia**, payroll reconciliations and internal audits occur on a monthly basis, but the National Army is not included. As such, payroll audit coverage is not universal.
- Although payroll processes are well-established and controlled in **El Salvador**, payroll audits are perfunctory and infrequent. Certain MDAs audit their establishment lists, but the SIRH had not been audited in the three-year period examined during the 2013 PEFA Assessment.⁸⁹
- In **Guatemala**, there is a clear system of internal controls for changes to payroll or personnel. However, as of the last PEFA evaluation in 2010, there had been no external audit of payrolls in three years, and only a few partial internal payroll and personnel records audits.⁹⁰
- In **Haiti**, there is a consistent lack of payroll audits, because the central HR office is understaffed and underfunded. PEFA evaluators noted irregularities in issuing pay that created salary arrears in several MDAs.

⁸⁸ PEFA Assessment for Peru, 2009

⁸⁹ PEFA Assessment for El Salvador, 2013

⁹⁰ PEFA Assessment for Guatemala, 2010

Opportunities for Strengthening Systems

Dimension	Opportunities for Strengthening Systems
PFM Governance	<ul style="list-style-type: none"> • Provide training and capacity building to strengthen implementation of existing PFM legislation. • Support the introduction and implementation of legal reforms to promote public access to information and accountability of PFM operations. • Deploy human and institutional capacity development methodologies to support entity efforts to better establish PFM priorities and goals, current HR needs, and staff capacity. • Utilize the USAID Human and Institutional Capacity Development Framework to improve an organization’s capacity to develop clearly articulated goals and objectives and achieve these goals and objectives through exemplary performance. • Promote the development and implementation of clear and detailed plans for decentralization, including improving revenue allocation systems and transfer formulas. • Strengthen anti-corruption and transparency institutions to foster compliance with internal control regimes, detection of non-compliant and fraudulent activities and greater openness and transparency in government operations.
Budget Planning	<ul style="list-style-type: none"> • Build capacity in the development of medium-term fiscal frameworks so that host country governments can plan consistently for the medium-term. Focus should be on projections of expenditures, budgetary needs, and fiscal indicators, all of which need to be improved in the focus countries. • Provide technical assistance on budgeting for subnational MDAs, including strengthening integrated budget planning between central and subnational MDAs. • Support strategic planning and its integration with current and multi-year budget planning, as this is a major weakness in all of the countries examined. Budgets are not linked to national strategic plans and policy objectives.
Budget Execution	<ul style="list-style-type: none"> • Develop budget execution manuals and provide capacity building and training for staff at MOFs and MDAs who manage the budget execution process. These efforts can also be targeted to improve reporting of and reduce off-budget expenditure. • Provide technical assistance for periodic monitoring and reporting of budgetary revenue and expenditure variances. • Support the adoption of IMF’s GFSM to harmonize the economic classification of expenditures and reporting. • Provide partner country governments sufficient advance notice on fund disbursements to allow for appropriate budget planning. Governments should be able to match donor priorities with their national strategic plans.
Treasury Operations and Cash Management	<ul style="list-style-type: none"> • Provide training to improve cash flow management and forecasting systems at MOFs and MDAs so that they can better manage the timing of revenues and expenditures. • Support TSA implementation in countries where full rollout is still incomplete. • Develop operating procedures to improve bank account management, especially for countries who have not fully implemented a TSA. • Expand debt data systems and debt portfolio reporting in countries where these have not yet been fully implemented.
Procurement	<ul style="list-style-type: none"> • Provide training and capacity building to strengthen compliance with procurement regulations. • Support the creation of certification programs for procurement personnel. • Strengthen sanctions for non-compliance with procurement regulations.

Dimension	Opportunities for Strengthening Systems
	<ul style="list-style-type: none"> • Standardize operations, including planning procedures, to help create a more reliable structure for procurement planning and coordination. • Support integration between procurement and finance systems through the implementation of a procurement module linked to the FMIS. • Provide technical assistance and capacity building to increase transparency of bidding procedures through better implementation of regulations and the creation of clearer roadmaps for decision-making. This would include training programs for civil servants and bidders, as well as strengthened monitoring and evaluation around procurement operations. • Support the implementation of transactional platforms to monitor contracts and create preferred supplier lists in countries and/or MDAs where these do not exist. • Support the inclusion of public procurement in the curricula of local universities or technical institutes to increase numbers of qualified candidates. • Provide technical assistance to update and strengthen weak procurement laws.
Accounting and Financial Reporting	<ul style="list-style-type: none"> • Provide technical assistance and capacity building for accrual-based public sector accounting across partner country agencies as countries take steps to implement full accrual accounting. • Support partner country governments in incorporating financial reporting and accounting modules in their respective FMIS. • Training and capacity building for accurate and timely reporting capabilities and the continuation of these practices throughout FMIS implementation and strengthening.
Internal and External Audit	<ul style="list-style-type: none"> • Support the adoption of systems for tracking internal audit recommendations and monitoring follow-up. • Provide technical assistance to help governments create (or strengthen) a central internal audit oversight function and policy bodies including a standard national model for internal controls and adopting standard internal audit frameworks. • Build capacity for improved internal auditing procedures that adhere to international standards. • Develop clear and consistent manuals for all IAUs and provide training on internal audit procedures and policy to internal audit staff. • Develop centralized systems for tracking external audit recommendations and monitoring follow-up. • Provide technical assistance and capacity building to strengthen audit procedures so that they adhere to international standards. • Prepare clear and consistent manuals for the SAIs and provide training to audit staff at SAIs and MDAs who facilitate the audit process. • Support governments to implement SAI audit report recommendations.
Financial Management Information Systems	<ul style="list-style-type: none"> • Support the standardization of reporting formats, in accordance with international reporting standards, so that cash management units maintain and enforce internal control procedures around account reconciliations, signature authorizations, and segregation of duties. • Provide technical assistance and training to extend FMIS implementation so that it covers all budgetary entities and lower levels of government, including municipal and provincial governments. • Support the full implementation of all FMIS modules, including applications that link financial management to HR, payroll, and procurement and related supporting infrastructure.
Human Resources	<ul style="list-style-type: none"> • Provide technical support to assist governments with the drafting and implementation of

Dimension	Opportunities for Strengthening Systems
	<p>payroll controls.</p> <ul style="list-style-type: none"> • Support the integration of personnel databases and payroll functions. • Develop human capital and institutional development programs, including capacity building and training opportunities, on PFM topics for public sector employees. • Prepare manuals on important HR topics, such as: segregation of duties and responsibilities; the range of authorities for different positions; required knowledge, skills, aptitudes, and other attributes, and key performance indicators.

Annex I – PEFA Scores for Focus Countries

As mentioned throughout the report, the nine LAC countries demonstrate a wide variety of practices, processes, challenges, and strengths across the PFM dimensions. An excellent testament to the diversity and complexity of PFM practices is the distribution of PEFA scores given to the different PFM dimensions, which have been referenced throughout the document. To provide the reader with a comprehensive view of all PEFA scores across the nine countries, Table 13 cites the PEFA scores across 31 indicators from the most recent PEFA Assessment for each focus country.

Table 13: PEFA Scores for LAC Countries

	CO	DO	SV	GT	HT	HN	JA	PY	PE
A. Public Financial Management Outcomes: Budget Credibility									
PI-1 Aggregate expenditure outturn compared to original approved budget	A	D	A	A	B	B	A	C	B
PI-2 Composition of budget expenditure outturn compared to original approved budget	B	C	A	C	D+	A	B+	B	C
PI-3 Aggregate revenue outturn compared to original budget	A	A	A	A	D+	A	D	A	A
PI-4 Stock and monitoring of expenditure payment arrears	D+	B+	N/S	D	N/S	A	C+	C+	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency									
PI-5 Classification of the budget	C	B	C	C	C	A	A	B	B
PI-6 Comprehensiveness of information included in budget documentation	A	C	B	A	C	A	A	C	A
PI-7 Extent of unreported government operations	A	C+	C+	C+	N/S	A	N/S	B+	A
PI-8 Transparency of inter-governmental fiscal relations	B	A	B+	C	C+	D	C	D+	A
PI-9 Oversight of aggregate fiscal risk from other public sector entities	B+	D+	C	C	D+	A	A	C	B+
PI-10 Public access to key fiscal information	B	B	B	A	D	B	C	A	A
C. BUDGET CYCLE									
C (i) Policy-Based Budgeting									
PI-11 Orderliness and participation in the annual budget process	B	D+	B	B	D	C	B	A	A
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	D+	C+	B	D+	C	B	D+	B
C (ii) Predictability and Control in Budget Execution									
PI-13 Transparency of taxpayer obligations and liabilities	B	B	B+	A	C+	C	B	B	B+

	CO	DO	SV	GT	HT	HN	JA	PY	PE
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B	B	B	B+	D+	D	C	C	A
PI-15 Effectiveness in collection of tax payments	D+	A	D+	N/S	D+	A	D+	A	D+
PI-16 Predictability in the availability of funds for commitment of expenditures	A	D+	B+	C+	D+	B	D+	C+	B+
PI-17 Recording and management of cash balances, debt and guarantees	B+	B	B	B+	D+	A	C	B+	B+
PI-18 Effectiveness of payroll controls	C+	D+	C+	D+	D+	C	D+	D+	B+
PI-19 Competition, value for money and controls in procurement	B	D+	B	D+	D+	D	C	B+	B+
PI-20 Effectiveness of internal controls for non-salary expenditure	B	D+	C+	D+	D+	C	D+	D+	B+
PI-21 Effectiveness of internal audit	C	D	C+	D+	D	B	D+	D+	C+
C (iii) Accounting, Recording and Reporting									
PI-22 Timeliness and regularity of accounts reconciliation	B	B	B+	B+	D	A	C	D+	B+
PI-23 Availability of information on resources received by service delivery units	C+	B	B	C	D	B	D	D+	D
PI-24 Quality and timeliness of in-year budget reports	C+	D+	B+	D+	D	C	C+	C+	C+
PI-25 Quality and timeliness of annual financial statements	A	D	B+	D+	D+	B	D+	C+	A
C (iv) External Scrutiny and Audit									
PI-26 Scope, nature and follow-up of external audit	B	D+	D+	C+	N/S	A	N/S	C+	B+
PI-27 Legislative scrutiny of the annual budget law	C+	D+	B+	C+	C+	A	D+	B+	B+
PI-28 Legislative scrutiny of external audit reports	D+	D	D+	D+	D	C	C+	D+	C+
D. DONOR PRACTICES									
D-1 Predictability of direct budget support	N/S	B	D	N/S	D	D	D+	C+	A
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	N/S	D+	D	D+	D	C	D+	D+	C
D-3 Proportion of aid that is managed by use of national procedures	N/S	D	C	C	D	D	C	C+	D
Year of Assessment	2009	2012	2013	2010	2011	2012	2012	2011	2009

Annex II – Colombia



Fiscal indicators (% of GDP) ⁹¹	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$233,900.00	\$287,000.00	\$336,400.00	\$370,200.00	\$373,800.00
General Government Revenue	26.7	26.1	26.7	28.1	27.8
Gen. Gov. Total Expenditure	29.5	29.4	28.6	27.9	28.8
Gen. Gov. Net Lending/Borrowing	-2.8	-3.3	-2.0	0.2	-1.0
Gen. Gov. Gross Debt	36.1	36.4	35.4	32.6	32.3

Country Facts ⁹²	
Population	47.2 million
GDP per capita	\$7,831
GDP per capita (PPP)	\$11,088
Unemployment	10.3%
Inflation (% change)	2.4%
HDI Ranking ⁹³	91



Key Findings for Colombia

- The Government of Colombia (GOC) has a well-managed PFM system and received high marks in its 2009 PEFA Assessment. Systems for assessing performance and for communicating to citizens the progress made in implementing policies are considered above the Latin American average and regarded as advanced according to OECD standards.⁹⁴
- According to the IMF, GOC has made substantial progress in the last decade developing best practices and international standards for macro-programming and debt management functions, revenue (tax and customs policy and administration) and expenditure management, and monitoring and evaluation through the implementation of the performance-informed Public Sector Performance Evaluation System, managed by the National Planning Department (DNP).⁹⁵
- The national level PFM framework is replicated at subnational levels (*departamentos* and municipalities), but there are differences in implementation between subnational governments. While some *departamentos* and large cities seem to perform similarly or better than the central government, others struggle.⁹⁶

⁹¹ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

⁹² Ibid. All values as of 2013.

⁹³ Human Development Index, a composite statistic of life expectancy, educational attainment, and command over resources needed for a decent living, as used by United Nations Development Programme to rank countries into four tiers of human development, from very high (1-47) to high (48-94) to medium (95-141) to low (142-186).

⁹⁴ “Launch of three OECD Reviews in the context of Colombia’s OECD Accession Process,” OECD, 2013

⁹⁵ IMF Staff Report: Colombia Article IV Consultation, 2013

⁹⁶ PEFA Assessment for Colombia, 2009

- Budget planning, utilizing a multi-year perspective, reflects a functioning policy-based system. However, results-based budgeting is still nascent and has yet to have much effect as spending decisions are still not linked to results.⁹⁷
- A TSA exists but it does not cover all public entities. WB is assisting GOC to expand the TSA's coverage and increase the share of payments made through the TSA to 90%.⁹⁸
- GOC channels donor funds through its PFM system. The government is willing and able to segregate donor funds in a separate bank account, if requested. This fund management process has been used by the EU, WB, and the governments of Spain and Switzerland.⁹⁹
- In 2009, WB and IDB evaluated procurement systems and found that the procurement legal framework was close to internationally accepted practices, but the organization and operation of procurement needed to be improved. The national public procurement regulatory agency (*Colombia Compra Eficiente*) was created in November 2012 to address many of the public procurement challenges. The Electronic System for Public Contracting (SECOP) is not yet integrated with the national FMIS (SIIF).¹⁰⁰
- Currently, SIIF includes the following functional modules: budget preparation, treasury, and accounting at the central level. The second stage of SIIF ("SIIF Nación 2") will incorporate procurement, contract management, control of fixed assets, and internal/external controls, but it is not clear when the government will complete this work.
- The fiscal responsibility framework and reporting systems (SIIF/CHIP) provide for regular risk monitoring across the public sector, with minor subnational gaps. There are multiple layers of control applied at different levels; however, internal controls are often overlapping and duplicative.¹⁰¹
- Colombia is working toward membership in the OECD. The current administration requested that the OECD Secretariat conduct a review of public administration in Colombia and help the government focus on priority areas to improve efficiency and effectiveness in operations, including PFM.¹⁰²

Country Summary across PFM Dimensions

PFM Governance – Colombia has a strong legal and regulatory framework. The Constitution governs the public budget, treasury, internal control, government accounting, and fiscal control (including audits). The Chamber of Representatives examines and approves the annual budget. Responsibility for internal control is placed on directors and managers of the MDAs, with a coordination committee for the internal control system established at each entity. Internal Control Offices (OCIs) advise the committee and perform internal audit functions. Fiscal control (oversight of finances, management, and results) is carried out by the CGO, an autonomous public entity. Public access to information is guaranteed by the Colombian Constitution and was strengthened in June 2012 when the Congress approved the Transparency and Access to Information Law. Moreover, GOC has a strong public policy goal of promoting accountability by making information available to the public on various websites.¹⁰³ GOC has enacted anti-corruption measures, particularly at the local level, by giving the Inspector General's Office

⁹⁷ Beyond the Annual Budget, WB, 2013

⁹⁸ World Bank Implementation Status & Results: Colombia, Consolidation of National Public Management Information Systems (P106628), archive date Oct. 19, 2013

⁹⁹ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

¹⁰⁰ PEFA Assessment for Colombia, 2009

¹⁰¹ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

¹⁰² Colombia: Implementing Good Governance, OECD, 2013

¹⁰³ See, e.g., www.sigob.gov.co, www.pte.gov.co and www.urnadecristal.gov.co

the authority to remove mayors and governors who do not report accurate and timely financial information, which has drastically improved reporting compliance at the subnational level.¹⁰⁴

Challenges¹⁰⁵

- The end use of a high percentage of public resources, which are allocated by formula, is fixed by law. This gives entities little room for discretionary spending or to allocate budgets based on performance information.
- There are several control institutions, including the Comptroller General, Inspector General, Attorney General, and Auditor General, and there are coordination challenges between them. Internal controls and mandates are often overlapping and duplicative, creating inefficiencies.^{106, 107}
- SIIF is not utilized consistently at the subnational government level.
- There is a lack of political will at the subnational level to tackle corruption. Additionally, capacity at the local level is uneven.¹⁰⁸

Budget Planning and Execution¹⁰⁹ – The budget planning process in Colombia integrates medium-term fiscal and sectoral policies. GOC has also been implementing performance-based budgeting over the past two decades, achieving one of the most advanced whole-of-government performance-monitoring systems in the world by OECD standards.¹¹⁰ The main budget planning instruments include: the National Development Plan; a Medium-Term Fiscal Framework; a Medium-Term Expenditure Framework; and the Annual Investment Operational Plan. The General Budget of the Nation incorporates the national budget and the budget of other national-level MDAs. The budget planning process is carried out in parallel by two different entities: the “investment” budget is the responsibility of the National Planning Department (DNP) and the “current” budget is prepared by MOF. Annual formulation takes place through a series of iterations between MDAs (represented by sector leaders), MOF, and DNP. The budget proposal is presented by MOF to Congress. Congress approves the budget into law in December before the start of the fiscal year. In 2011, GOC launched the Budget Transparency Portal¹¹¹ to promote citizen participation in the budgeting process. Budget execution, in terms of committing expenditures, accruing them, and issuing payment orders, is the responsibility of each MDA, and procedural controls are uniform across the central government. Budget execution procedures are automated by SIIF; this includes commitment of expenditures which largely mitigates the risk of unauthorized or undocumented outflows. MOF monitors budget execution, as it administers the TSA and SIIF, and controls the release of funds to MDAs and public entities.

Challenges

- Many investment decisions have weak links to their recurrent cost implications, reflecting a system that has traditionally separated investment and operational budgeting.
- There is no clear connection between the public procurement planning and budgeting exercises.
- The executive has the power to modify the budget during implementation, with congressional involvement required only in a few cases (increases to budget, reallocations between different

¹⁰⁴ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

¹⁰⁵ Ibid.

¹⁰⁶ PEFA Assessment for Colombia, 2009

¹⁰⁷ Colombia: Implementing Good Governance, OECD, 2013

¹⁰⁸ PEFA Assessment for Colombia, 2009

¹⁰⁹ Ibid.

¹¹⁰ Colombia: Implementing Good Governance, OECD, 2013

¹¹¹ www.pte.gov.co

investment programs, and reallocations between investment, debt service, and operational appropriations). The executive branch can also guarantee expenditures against future revenues.

- The existing budget and execution classifications are not fully in line with international economic and functional classifications (GFSM). GFSM are only used at an aggregate level during the formulation stage, representing an important departure from international practice.
- Within the budget, there are earmarked special funds (around 16% of central government revenues) that are not always subject to the same detailed budget management requirements, though their execution is included in GOC's fiscal reports.
- Procedures for annual budget formulation, recording of appropriations, and management of budget modifications at the subnational level are not as sophisticated as they are at the central level.

Treasury Operations and Cash Management – Colombia's TSA is managed by the Treasury. All revenues are collected in MOF bank accounts and then consolidated daily in the TSA. Some earmarked revenues and externally-financed projects are maintained in separate bank accounts managed by MOF. Bank accounts managed directly by some public entities (*establecimientos públicos*)¹¹² and special funds are not included in consolidated reports (but these do not represent a significant portion of the budget). Treasury prepares an annual cash flow forecast based on historical revenue patterns, the debt schedule, and the monthly cash plan (PAC). The release of national funds is managed through the PAC, which is approved by the Superior Fiscal Policy Council. Monthly spending limits are established for each public entity based on the PAC. Entities can adjust PACs on a monthly basis with MOF's approval. Debt management is the responsibility of MOF's Public Credit Department, which maintains the public debt database in the Debt Information System. The system contains information on the whole debt cycle for individual operations. Central government debt transactions are updated daily, and, although not directly linked to SIIF, the information is transmitted electronically, and balances are reconciled monthly.

Challenges

- Tax collections are made under contractual arrangements through the banking system; banks inform the Tax and Customs Administration and MOF within a day of collection, and deposit funds into MOF accounts approximately 14 days after collection. The 14-day floating day period is significantly longer than the regional average of less than two days.
- Domestic and foreign debt records are complete, but there are minor reconciliation problems between MOF figures from SIIF and data reported by CGO's annual publication on public debt.
- Payment arrears constitute between 2-10% of total expenditure in a given year, and the lack of identification of payment arrears affects the quality of fiscal and budget documentation.
- The balances of government bank accounts managed directly by entities other than MOF which remain outside of the TSA cannot be consolidated. This is the case for most special funds, as well as revenues of *establecimientos públicos*.

Procurement – Procurement is highly decentralized. In accordance with the regulatory framework in effect since 2007, selection is carried out through open tendering (competitive bidding, abridged selection, and merit-based selection), except in specific “direct contracting” cases determined by law. Direct contracting processes that do not require public bidding are those of “minimal value” and those of a confidential nature.¹¹³ The threshold amount for direct procurement is established according to the annual budgets of the procuring entities and not according to a fixed value.¹¹⁴ The e-procurement system

¹¹² Excludes public enterprises

¹¹³ Procurement selection methods are regulated by Decree 2474/2008

¹¹⁴ PEFA Assessment for Colombia, 2009

is not a transactional procurement platform. In 2012, GOC established the national procurement agency, *Colombia Compra Eficiente*, as a result of recommendations by WB and IDB. *Colombia Compra Eficiente* is in charge of setting up framework agreements, updating and overseeing the electronic procurement platform, coordinating and advising on procurement policy, and assisting MDAs and suppliers in procurement practices. As of the writing of this document, the agency is working on simplifying the legal framework, which is overly complex and difficult to implement. It has prepared a new draft decree consolidating rules on procurement principles and objectives, procedures, awards, conclusion, and execution of contracts. The government is also in the process of rolling out an e-procurement platform (SECOP) which will support MDAs in their procurement and contract administration, and will allow for the tracking of public tenders.

Challenges

- SECOP does not currently interface with SIIF.¹¹⁵
- SECOP does not allow for online bidding or data collection on procurement status, award of contracts, contract performance and payments, or contract close-outs.¹¹⁶
- The procurement process lacks transparency, and there are inconsistencies with the availability of information to the public. This is compounded by procurement laws which are difficult to implement. *Colombia Compra Eficiente* is working on simplifying the overly complex legal framework.

Accounting and Financial Reporting – According to the IMF, the Colombian public sector accounting standards reflect the most advanced practice in Latin America and are broadly in line with accrual-basis IPSAS.¹¹⁷ The Office of the Accountant General is responsible for the Public Accounting Regime, which is mandatory at all levels of government. The Accountant General administers the Public Financial Information Consolidation System (CHIP), a tool through which entities report their accounting balances, revenues and expenditures, and other financial data. Formulation, execution, and reporting rely on two budgetary classifications (by entity and by account), which are consistent with GFSM classifications (though GFSM classifications are not used in the budget execution reports). Budget execution reports aggregate data by commitment, obligation, and payment stages, allowing comparison between original, modified, and executed budgets. Information on budget execution is available in real time for entities that use SIIF. Subnational entities, which do not use SIIF, report their budget execution on a monthly basis to MOF through CHIP. Annual financial statements are standardized, but reliability and accuracy of data depend on the individual reporting entities. GOC has reaffirmed its commitment to adopt the GFSM 2001 framework for its reporting of revenue, expenditure, and financing data.¹¹⁸

Challenges

- There are significant numbers of qualified and adverse audit opinions issued by the Office of the Comptroller General (CGO) on financial reports. Fiscal reporting can be inconsistent and there are concerns about accuracy as individual MDAs prepare financial statements.
- There are data differences in consolidated subnational fiscal information from DNP and CGO.

Internal and External Audit – Overall responsibility for internal control is placed on directors of MDAs which are supported by OCIs and an internal control coordination committee in each public sector entity. The OCIs perform internal audit functions and report their findings to the respective committee. The national standard for internal controls (MECI) has been implemented in all central level MDAs. MECI

¹¹⁵ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

¹¹⁶ Colombia: Implementing Good Governance, OECD, 2013

¹¹⁷ “A success story in implementing accrual accounting in the public sector,” IMF, 2010

¹¹⁸ IMF Staff Report: Colombia Article IV Consultation, 2013

comprises strategic, management, and evaluation controls; and its design is consistent with international leading practices. There is a guide for OCIs which recommends, but does not mandate, the International Standards for the Professional Practice in Internal Audit. Reports are submitted to the MDA's highest authority and the internal control coordination committee. Internal audit reports are not submitted to MOF.

External audits at the national level are performed by CGO. For external audit, CGO has developed generally sound government auditing standards and procedures, but implementation of improvement plans is inconsistent. The auditing policies and procedures are documented in the Guide to Government Auditing with an Integral Focus. The guide is a systematic process for the simultaneous application of financial, compliance, and performance procedures consistent with national government auditing standards set forth by the CGO, including auditor independence and risk-based audit planning, among others. It provides for regular, special, and monitoring audits. INTOSAI's International Standards for Supreme Audit Institutions are used only as reference in the national government auditing standards.¹¹⁹

Challenges

- There are multiple layers of internal controls that are often overlapping and duplicative.¹²⁰ OECD cites the need to strengthen policy coordination across all levels of government by reducing redundancy, especially in the audit and control system.
- Government-wide oversight of internal audit reporting is non-existent, though the internal control system is extensively regulated. There have been significant efforts to improve internal controls regulation, but the regulatory framework remains fragmented across myriad laws, decrees, presidential directives, etc.¹²¹
- CGO is charged with the compilation of certain budget, treasury, financial, and debt data, which is unusual for a SAI. These additional mandates could impede implementation of an audit function fully compliant with professional standards.
- Internal and external audit is generally comprehensive, but its effects are minimized by limited follow-up.

Financial Management Information Systems¹²² – Since 2010, GOC has been modernizing and upgrading SIIF. GOC has been working to simplify and standardize some of the processes, working with a software development company to write the functional specifications for independent but well-integrated modules that include: budget preparation, budget appropriations, budget execution, income execution, accounting, payment and cash management, budget execution ceilings, procurement and contract management, inventory management, and billing and accounts receivable. Currently, SIIF's operational modules include budget, treasury, and accounting at the central level, as the remaining modules have been developed but not implemented.¹²³ SIIF's institutional coverage reaches all central government entities and non-financial public corporations, but it does not cover subnational entities. SIIF standardizes financial management processes, controls, and databases, such as those for execution of expenditure budgets, cash planning and treasury operations, and accounting records. Other IT systems used by national government entities include:

- SUIFP. The Unified System of Investment and Public Finance, the investment projects database.

¹¹⁹ PEFA Assessment for Colombia, 2009

¹²⁰ Ibid.

¹²¹ Colombia: Implementing Good Governance, OECD, 2013

¹²² PEFA Assessment for Colombia, 2009

¹²³ Program Document for Proposed Loan for \$600M to Colombia, WB Report No. 76920-CO, 2013

- CHIP. The Public Financial Information Consolidation System, a web-based application in full operation that allows entities at the central and subnational government levels to report their accounting information to the Accountant General.
- SUIP. The Uniform Personnel Information System, the largest HR database for the central government.
- SIGEP. Public Employment Management Information System, the system used to support organizations with planning, development, and human resources management.
- MUISCA. The IT application of the Single Model for Automated Revenues, Services, and Control supports all of DIAN's basic tax administration processes.
- SECOP. The IT application for procurement.¹²⁴

Challenges

- SIIF uses only the modules related to the Core Treasury System, while the remaining modules have been developed but not implemented.¹²⁵
- GOC's chart of accounts currently does not support program budgeting, and there are no objectives or indicators for monitoring and evaluation of various programs.
- Most subnational governments use unique FMIS platforms that are not integrated with other systems at the central level. There are currently no plans to extend SIIF to subnational entities.

Human Resources (HR)¹²⁶ – GOC has a civil service law and the National Commission for Civil Service oversees its implementation. SUIP, which is maintained by the Department of Public Administration (DAFP), is the largest database containing personnel information for the central government, but it is not comprehensive. SUIP is primarily used by DAFP for statistical reporting of basic data such as the number and classification of public jobs. HR departments within MDAs are responsible for maintaining historical data and making changes to their personnel databases, as well as for preparing the payroll (which is later entered in SIIF). Because SUIP is primarily a statistical reporting system, MDAs use their own IT systems not linked to SUIP or SIIF for personnel databases and payroll management. Updates to personnel and payroll databases are generally done on a monthly basis and in time for the following month's payments, thus minimizing retroactive adjustments.¹²⁷ In 2010, GOC launched the Public Employment Management Information System (SIGEP). Beyond compiling statistical information on public servants, SIGEP will enhance planning, development, and management of human resources. SIGEP has three subsystems: institutional organization, human resources, and customer services. The system is at various levels of implementation at the central level and subnational entities, but coverage is still not universal.¹²⁸

Challenges

- MDAs generally use their own IT systems for personnel and payroll management, which are not linked to SUIP. GOC should finalize implementation of SIGEP and make it mandatory for all public entities in order to facilitate a comprehensive and current personnel database.
- There is no specific mandate to perform payroll audits; internal control offices perform them during general audits, but standard procedures are not followed.

¹²⁴ <https://www.contratos.gov.co/>

¹²⁵ Program Document for Proposed Loan for \$600M to Colombia, WB Report No. 76920-CO, 2013

¹²⁶ USAID PFMRAF Stage I Rapid Appraisal for Colombia, 2012

¹²⁷ PEFA Assessment for Colombia, 2009

¹²⁸ Colombia: Implementing Good Governance, OECD, 2013

International Donor Activities

- GOC requested OECD review of public administration to help the government focus on priority areas to improve efficiency and effectiveness in operations, including PFM.¹²⁹
- WB is providing support to GOC to improve efficiency, transparency, and accountability in the public sector through several projects, such as Consolidation of Public Management Systems and Consolidation of National Public Information Management Systems.¹³⁰ At the subnational level, the Program to Strengthen Subnational Institutional Capacities (P129465) focuses on three main policy reform areas: (a) budget predictability and stability; (b) social security liability management; and (c) disaster risk financing. A proposed development policy loan for Enhancing Fiscal Capacity to Promote Shared Prosperity for \$600M would support implementation of reforms in six main policy areas, including: tax policy and administration, local revenue sources, and open access to national financial management information systems.
- IMF's Fiscal Affairs Department is providing follow-up technical assistance to support DIAN's medium-term reform strategy to further increase its capacity to encourage and enforce taxpayer compliance. This mission is part of a project financed by the Government of Switzerland with the objective to reform and modernize tax and customs administration in Peru and Colombia.
- IDB has worked with Colombia on its decentralization process; it has sought to strengthen the management capacity of the subnational governments through the Program to Consolidate Subnational Fiscal Responsibility (CO-L1072) which seeks to improve the country's fiscal stability through monitoring, tracking, and more effective control over the finances of subnational governments and decentralized agencies.¹³¹

¹²⁹ Colombia: Implementing Good Governance, OECD, 2013

¹³⁰ World Bank Implementation Status & Results: Colombia, Consolidation of National Public Management Information Systems (P106628), archive date Oct. 19, 2013

¹³¹ Country Program Evaluation: Colombia 2007-2011, IDB, 2011

Annex III – Dominican Republic



Fiscal indicators (% of GDP) ¹³²	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$46,485.00	\$50,980.30	\$55,433.30	\$58,813.60	\$59,813.60
General Government Revenue	13.7	13.6	13.5	14.0	15.6
Gen. Gov. Total Expenditure	17.2	16.1	16.1	20.6	18.4
Gen. Gov. Net Lending/Borrowing	-3.5	-2.5	-2.6	-6.6	-2.8
Gen. Gov. Gross Debt	28.5	29.1	30.3	33.5	35.7

Country Facts ¹³³	
Population	10.4 million
GDP per capita	\$5,690
GDP per capita (PPP)	\$9,698
Unemployment	12.5%
Inflation (% change)	5.0%
HDI Ranking	96



Key Findings for Dominican Republic

- Sweeping regulatory and legal reform since 2006, including the implementation of a new Constitution in 2010 and a Strategic Plan in 2013, has resulted in progress on improving the Government of Dominican Republic's (GODR's) PFM systems and practices. However, consistent implementation of the regulatory framework is still lacking.
- As part of legal reform process, public access to information increased following passage of the national law guaranteeing public access to information in 2010. MOF and GODR website portals supply the public with key information, but issues persist with the quality and comprehensiveness of the information provided.
- Various laws require minimum allotments or percentages of the budget to be assigned to different functions, sectors, or entities. Amounts are pre-determined by select interest groups and thereafter defined in legislation and are not based on government priorities.
- Poor budget credibility, due to significant deviations between approved budgets and executed amounts, is cited in the two most recent GODR PEFA Assessments as a common issue across all public institutions. Additionally, not all revenues or expenditures are captured in the annual budget which increases the risk of abuse of public funds. For example, the 2010 PEFA reported that extra-budgetary resources represented 3.8% of total expenditures in 2009.¹³⁴
- Initial indications suggest that TSA implementation has been a success after the initial pilot conducted at central level MDAs; however, more attention needs to be given to the rollout at the municipal level.

¹³² IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

¹³³ Ibid. All values as of 2013.

¹³⁴ PEFA Assessment for Dominican Republic, 2012

- Despite procurement reforms, the regulatory framework is not consistently followed, and discretionary and non-competitive tender mechanisms are still utilized.
- The national accounting system is cash-based and is not consistently implemented across MDAs and sectors. GODR has signaled its intention to adopt IPSAS, but the legal accounting framework must be modified before implementation can begin.
- External audit capacity is weak, understaffed, and under-budgeted to complete the annual audit plan.
- FMIS (SIGEF) rollout is still not complete at the subnational level, but overall FMIS implementation has improved the transparency of government spending.
- Corruption and non-transparent distribution of public sector jobs are still ongoing issues. Merit-based promotions are not the standard means for civil servants to progress in their careers.

Country Summary across PFM Dimensions

PFM Governance – There have been major reforms to PFM governance since 2006 in response to PEFA findings and other reports criticizing the country for having a weak regulatory framework for procurement, budget formulation, financial reporting, public access to information, and other areas. In 2006, with the assistance of the IMF, WB, IDB, EU, and USAID, GODR launched an “unprecedented” wave of reforms and legislation to improve PFM.¹³⁵ These reforms were complemented by the new 2010 Constitution which strengthened the role of the Comptroller General.

Challenges

- The inconsistent implementation of existing laws has been attributed to a combination of problems including a lack of capacity (institutional, personnel, and/or public funds) and deficient governing/regulating bodies to exercise authority over compliance with the law.
- A variety of domestic and international studies show that GODR’s record in preventing, detecting, and prosecuting corruption, applying the rule of law, and establishing transparent and accountable public institutions is not up to international standards.
- Limited or incomplete public access to information has been a recurrent finding in PEFA reports, IDB reports, and the USAID PFMRAF Stage I Rapid Appraisal. There have been significant improvements in the quantity of information provided since the 2010 law guaranteeing access to information, but not necessarily the quality or comprehensiveness.
- Decentralization over budget execution has not been fully implemented throughout all levels of government.
- According to the 2012 Report from the Open Budget Initiative, GODR scored only 29 points out of 100 for budget transparency. This low score places Dominican Republic in a group of countries publishing very little or no information at all. A new citizen portal contributes to reform efforts toward transparency but the information is still too general and does not include specifics about sectors or programs.

Budget Planning and Execution – Budget planning is led by the Directorate General of the Budget. The Planning Directorate prepares macro-fiscal forecasts prior to March 31. Between April 1 and June 30, MOF and the Planning Directorate coordinate and adjust budget ceilings with multi-year frameworks and national strategies. From June 30 to July 15, the Budget Directorate prepares and then disseminates the budget circular requiring MDAs to elaborate and submit budget requests by August 15. Congress examines and debates the draft budget over a three-month period, from August 16 to

¹³⁵ PEFA Assessment for Dominican Republic, 2012

November 16. During this time, Congress considers changes in policy or budget allocations; but examinations are not exhaustive, and sectoral sub-committees do not provide commentary on draft budgets during negotiations. Congress must approve the budget in December before the start of the fiscal year on January 1. The approved budget for the central government comprises the Executive, Legislative, and Judicial branches, as well as the Electorate Commission and Court of Accounts. Decentralized entities, social security institutions, non-financial and financial public enterprises, and subnational entities are not included in the central government budget. The Budget Directorate monitors budget execution using monthly and quarterly reports. The quality of information in the reports is largely dependent on the coverage and integration of the various financial IT systems. As of April 2014, coverage of SIGEF, the FMIS, is being expanded to decentralized institutions and social security entities.

Challenges

- Various laws require minimum allocations or percentages of the budget to be assigned to different functions, sectors, or entities. However, these requirements are generally ignored by MOF and the legislature because the amounts are pre-determined by select interest groups in the government, and are not based on government priorities.
- The Congressional Budget Committee lacks the technical capacity to examine and understand the fiscal policies that support the proposed budget and its execution, as well as budget modifications. In addition, there are no established procedures for the budget review performed by the legislative branch. The review process is mostly ad hoc.
- Transfers to subnational governments do not take into account critical demographic and economic factors. There are pre-determined formulas that consider size and population of the municipalities, but more sophisticated factors such as territorial, poverty, gender, or administrative efficiency indexes are not considered. Often, less developed areas needing more assistance receive a smaller allocation than more developed geographic regions.

Treasury Operations and Cash Management – In 2010, GODR began implementing a TSA, closing many unlinked bank accounts. The first phase included implementation in seven ministries: Foreign Affairs, Finance, Sport and Recreation, Tourism, Culture, Women, and Youth.¹³⁶ To date, GODR has closed over 2,800 bank accounts. TSA implementation is now in the second phase with roll-out to additional MDAs. There have been some difficulties with integrating with SIGEF, but in general, implementation is progressing, and has drastically improved the accuracy and timeliness of cash flow monitoring and reporting.¹³⁷ Donor funds have been put through the TSA and managed via the country's FMIS. The Treasury develops fiscal year cash flow forecasts, which are updated weekly to adjust for actual revenues and expenditures. Funds are disbursed to MDAs according to monthly cash plans. Unlike in many of its regional counterparts, public debt and external debt are well recorded and reported on by the Treasury. However, there are gaps on the reporting of internal debt, as many of these transactions are not recorded in the central FMIS.

Challenges

- Although the Treasury has a clear plan for full TSA rollout, many bank accounts, managed by central level MDAs, local governments, and decentralized entities, are still authorized.
- There are issues with reporting of internal debt, because many of these transactions are registered outside the FMIS. There are inconsistencies between Treasury's and the Central Bank's records, and coordination to resolve these issues is poor.

¹³⁶ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012

¹³⁷ PEFA Assessment for Dominican Republic, 2012

Procurement – Since 2010, GODR procurement reform initiative has achieved significant milestones, including the creation of a public procurement management model and the creation of a single portal for tracking information on government procurements.¹³⁸ However, the procurement portal is not a transactional platform, so that contracting and payments processes must be performed through other unlinked systems. Law 449-06 mandates competitive bidding, using the following five tendering mechanisms: (i) competitive bidding; (ii) restricted tender; (iii) lottery of works; (iv) comparison of prices based on a register of vendors; and (v) inverted bid auction based. The Procurement Directorate, a department within MOF, is the regulatory agency charged with approving annual procurement plans submitted by MDAs, maintaining the public procurement portal, and resolving procurement appeals.

Challenges

- There is inconsistent implementation of the legal and regulatory framework for procurement. Controls are bypassed, resulting in the frequent use of non-competitive tendering mechanisms and increased direct-purchasing.
- As of the 2012 PEFA, less than 5% of procurement tenders were published in the procurement portal.
- The procurement portal is not a transactional module.
- Procurement sanctions are not effectively enforced, due to a lack of political will, a lack of proper administrative procedures, and inadequate mechanisms to enforce the law.¹³⁹
- There is no reliable evidence to gauge the effectiveness of the complaints mechanism during the proposal selection process.

Accounting and Financial Reporting – Although the 2012 PEFA found that various public sector accounting standards are still not used consistently throughout the government, financial reporting has improved overall in the past five years. The Budget Directorate updated the Budget Classification Manual in 2013 to include broader definitions which are based on IPSAS, GFSM, and the United Nations Standard Products and Services Code.¹⁴⁰ Monthly budget execution reports provide information on the majority of public sector entities, but close scrutiny is limited by the lack of information on cumulative execution, original approved budget, and modifications to the approved budget. The Accounting Directorate (DIGECOG), an MOF agency, prepares the central government’s financial statements. Annual financial reports conform to some international standards, but the information lacks accuracy due to limited coverage of SIGEF and inconsistent application of national accounting standards. In 2012, GODR signaled its intention to adopt IPSAS accounting standards.¹⁴¹ As of April 2014, the government completed a draft accounting framework, paving the way for IPSAS implementation.¹⁴²

Challenges

- DIGECOG must manually generate financial information that is not captured automatically in SIGEF.¹⁴³ This includes information on personnel, procurement, and investments, as the respective systems do not interface with SIGEF.¹⁴⁴

¹³⁸ <http://www.comprasdominicana.gov.do/>

¹³⁹ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012

¹⁴⁰ *Informe sobre avances en la gestión de finanzas públicas a diciembre 2013*, DO’s MOF, 2014

¹⁴¹ *Impacto de la NICSP en Sistemas Integrados de la Administración Financiera – RD*, IPSAS Workshop in Costa Rica, 2013

¹⁴² *Informe sobre avances en la gestión de finanzas públicas a diciembre 2013*, DO’s MOF, 2014

¹⁴³ *Ibid.*

¹⁴⁴ PEFA Assessment for Dominican Republic, 2012

- The national accounting system currently does not comply with international standards in regards to capital and inventory accounting.¹⁴⁵ The government does not have asset management systems to account for physical capital, which directly impacts efforts to adopt IPSAS.
- The archiving of financial reports and financial statements is not systematized across MDAs or at the subnational level.¹⁴⁶
- The scope of financial reporting is limited, especially when it comes to providing complete and transparent reporting of revenues and off-budget expenditure.¹⁴⁷

Internal and External Audit – CGO regulates internal audit and the national internal control framework (SINACI). The framework should extend to all the central government, non-financial public entities, social security institutions, and subnational entities, but as of the 2012 PEFA Assessment, it was not fully implemented. IAUs ensure that entities follow required steps in budget execution. They perform transactional verifications and provide quarterly reports to CGO, but IAUs generally do not evaluate systemic risks. Internal audit reports are generally not available to the public.¹⁴⁸

The Court of Accounts, the SAI, is a member of INTOSAI. The Court has administrative, operational, and budgetary autonomy. The external audit function is codified in the National Audit and Control System. The Court performs annual external audits that cover approximately 80% of expenditures of the central government, as well as many public and subnational entities. Audits are largely financial verifications and checks on internal controls, but there are no risk-based or value-for-money audits. The Court presents external audit reports for legislative review every April.¹⁴⁹ All external audit reports are published on the Court of Accounts website.¹⁵⁰

Challenges

- Internal audit procedures are not systematic or uniform across MDAs. In most cases, the internal audit function has been restricted to monitoring internal controls and performing transactional verifications.
- The revised 2010-2012 Strategic Plan of the CGO raised concerns about the ability of auditors to conduct effective internal audits and to implement other measures set out in SINACI.
- Follow-up to internal and external audit recommendations has been limited and poorly documented. Evidence collected during the 2012 PEFA indicates that IAUs continue to issue audit reports that specify irregularities in payments and recurring administrative issues. The audit reports recommend corrective measures and administrative actions. However, there is little evidence to demonstrate that the recommendations are taken seriously or addressed on a regular basis.
- The 2012 PEFA Assessment estimates that 20% of total expenditure is not within the scope of external audit due largely to scarcity of resources.

Financial Management Information Systems – The national FMIS, SIGEF, has been in the process of implementation and development for over 15 years. SIGEF was designed to control and monitor expenditure of monthly allocations to prevent over-execution by spending agencies. SIGEF also allows transactions from revenue and expenditure accounts managed by the Treasury to be analyzed and consolidated in a timely and transparent manner. According to the 2012 PEFA Assessment, the strongest

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012; PEFA Assessment for Dominican Republic, 2007 and 2012

¹⁴⁸ PEFA Assessment for Dominican Republic, 2012

¹⁴⁹ Ibid.

¹⁵⁰ <http://www.camaradecuentas.gob.do/>

controls in the system are those related to cash and banking processes and verifications. In 2012, GODR enabled accessibility to SIGEF via a web portal, to extend coverage to national level MDAs throughout the country. The government is planning to complete the rollout of SIGEF to 34 public entities in 2014, as well as develop interfacing modules to link procurement, HR, asset management, and tax administration systems.¹⁵¹ It is expected that by 2015, the entire non-financial public sector will formulate and execute the budget through SIGEF, and that by 2016 SIGEF will be expanded to municipalities.¹⁵²

Challenges

- SIGEF does not capture supplier and contract information. It is difficult to track commitments for awarded tenders, especially for contracts that are paid in installments.
- SIGEF lacks integration with inventory and asset monitoring. Physical inventory and fixed assets are not yet captured, though GODR is planning to develop an asset management system to interface with SIGEF.
- SIGEF does not have sufficient automation capabilities to facilitate real-time and comprehensive financial reporting of information on payroll, procurement, and investment due to a lack of integration with the respective modules.
- FMIS has been implemented at the municipal level (SIFMUN) in about one-third of municipalities as of the latest PEFA. However, the government has not developed an interface between SIFMUN and SIGEF.¹⁵³

Human Resources – GODR implemented a new HR law and other reforms, including the Civil Service Law 41-08 professionalizing the public service sector, and Regulation 523-09 on Labor Relationships in Public Administration, which covers the evaluation of staff recruitment, a code of ethics, and the training of personnel.¹⁵⁴ The 2012 PEFA indicates that the civil servant registration system (SASP), which is critical to HR management, has improved, but it is still not fully implemented across all MDAs; it is lacking, for example, in MOF and Ministry of Tourism. Control mechanisms have been created to measure the professionalization of the civil service based on the Ibero-American model of Public Function and the Americas Barometer’s Public Opinion Survey of civil services in Central America and Dominican Republic.¹⁵⁵

Challenges

- The USAID PFMRAF Stage I Rapid Appraisal found that there is still a high prevalence of public positions filled through non-merit-based selection mechanisms.¹⁵⁶
- There is no regulation on the salary levels of government employees. Although Law 105-13 was ratified in 2013 to regulate the payroll of public servants, it has not been implemented.¹⁵⁷

International Donor Activities

- USAID’s current mechanism for assistance is through a Limited Scope Assistance Agreement (LSAA), signed in 2007 between GODR and the U.S. Government, with a completion date of September 2014. USAID’s programs in Dominican Republic align with the priorities of the country’s

¹⁵¹ *Impacto de la NICSP en Sistemas Integrados de la Administración Financiera – RD*, IPSAS Workshop in Costa Rica, 2013

¹⁵² *Informe sobre avances en la gestión de finanzas públicas a diciembre 2013*, DO’s MOF, 2014

¹⁵³ PEFA Assessment for Dominican Republic, 2012

¹⁵⁴ Dominican Republic Final Report: Mechanism for Follow-up on Implementation of the Inter-American Convention Against Corruption, OAS, 2014

¹⁵⁵ USAID PFMRAF Stage I Rapid Appraisal for Dominican Republic, 2012

¹⁵⁶ *Ibid.*

¹⁵⁷ “*Altos sueldos pudieran mantenerse hasta que funcionarios sean removidos*,” *Diario Libre*, Apr. 2014

National Development Strategy (NDS), helping to improve governance and citizen security, and reduce corruption.

- In November 2011, a Resident Budget Advisor from the Office of Technical Assistance of the U.S. Department of the Treasury was placed in the Budget Directorate to help GODR improve the allocation and management of national budget resources, to better monitor the impact of State budget allocation decisions, and to strengthen the link between budget formulation and the NDS.
- The following are active and completed WB PFM projects since 2008:
 - Dominican Republic Public Expenditures Management (active);
 - Public Finance and Social Sector Development Policy Loan (closed); and
 - First, second, and third Performance and Accountability of Social Sectors Development Policy Loans (closed).
- IDB increased financial support to the GODR considerably for the period 2009 to 2013; during which it approved US\$2.179 billion (26 loans), a sum 188% higher than the corresponding sum for 2004–2008 (US\$756.8 million, 19 projects). Twelve of these projects focused on public finance (32.3%), thirteen on social protection (17.4%), and one on the energy (12.8%) sector. Support for PFM reforms included:
 - Improving transparency in PFM;
 - Strengthening MOF; and
 - Modernizing SIGEF (financial decentralization, strengthen public procurement, internal controls).
- The European Commission’s gross disbursements from 2001-2009 reached more than €247 million and supported the General Budget Support Program for Poverty Reduction.

Annex IV – El Salvador

Fiscal indicators (% of GDP) ¹⁵⁸	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$20,661.00	\$21,419.00	\$23,140.00	\$23,787.00	\$24,359.00
General Government Revenue	15.9	17.1	17.6	18.1	18.3
Gen. Gov. Total Expenditure	21.4	21.6	21.5	22.0	22.5
Gen. Gov. Net Lending/Borrowing	-5.6	-4.4	-3.9	-3.9	-4.2
Gen. Gov. Gross Debt	48.2	49.7	50.0	55.4	54.6

Country Facts ¹⁵⁹	
Population	6.3 million
GDP per capita	\$3,900
GDP per capita (PPP)	\$7,505
Unemployment	5.7%
Inflation (% change)	2.3%
HDI Ranking	107



Key Findings for El Salvador

- The Government of El Salvador (GOES) has initiated efforts to modernize PFM and is pursuing related policy reforms with technical assistance from USAID, GIZ, and IMF. The modernization plan includes assistance to introduce results-based budgeting, functional and programmatic classification of the budget, a TSA, and the harmonization of government accounting with IPSAS.¹⁶⁰
- In general, PEFA, USAID, and IMF assessments have found that PFM systems at the central level have clear legal and regulatory frameworks, but transparency and the effective implementation of PFM regulations require improvement. PFM systems at the subnational level are weaker overall; and some municipalities struggle to adhere to PFM regulations.
- Fiscal management relations among different levels of government are not completely clear. The legal framework distinguishes areas of competence for municipalities in which the central government may only intervene if a local government does not exercise its authority or does so insufficiently. In practice, many of the authorities assigned to municipalities are actually shared with the central government.
- Historically, budgeted resource allocations have been unrealistic due to a lack of communication between MDAs and MOF during the budget planning process, leading to surpluses in some MDAs and deficits in others.
- A statement of medium-term fiscal policy objectives is issued as part of the budget planning process. However, medium-term fiscal targets have yet to be established to facilitate budget proposals consistent with fiscal sustainability. Current fiscal and expenditure policies tend to focus on maintaining aggregate fiscal discipline.

¹⁵⁸ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

¹⁵⁹ Ibid. All values as of 2013.

¹⁶⁰ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

- The government is currently implementing a TSA system with the technical support of USAID and U.S. Treasury.
- Public procurement of goods and services requires strengthening. Procurement regulations ensure a reasonably transparent procurement process, but create bottlenecks at different stages of the process. A UN analysis of the procurement law indicated that an infrastructure project can take up to 750 days from conception to initial execution.¹⁶¹
- The supreme audit institution, the Court of Accounts, has both audit authority and judicial authority (it can audit, investigate, prosecute, and penalize fraud and misuse of public funds). This is an inadequate segregation of duties.
- As of the 2013 PEFA report, annual external audits cover less than 50% of the executed budget.
- The municipal version of SAFI (SAFIMU) has not been implemented in most subnational entities. However, the government is currently updating the system with USAID and EU support to facilitate use by all municipalities.

Country Summary across PFM Dimensions

PFM Governance – The PFM system is regulated by a modern legal framework, which covers all essential elements of the budget cycle.¹⁶² GOES operates on the principle of centralized regulations and decentralized operations. Under the organic budget law, MOF is responsible for the normative functions of PFM, and financial units in each MDA are responsible for operational aspects. MDA financial units are in charge of the budgetary and accounting functions of each ministry, including the related internal controls. Procedures for internal control of budget execution are clearly defined for each of the processes, such as the payment of expenses, debt servicing, payroll, and the procurement of goods and services. Over the past decade, GOES has passed several reforms to strengthen accountability (including an Ethics Law, Access to Information Law, and the creation of a Government Ethics Tribunal), but implementation remains a challenge and an area where the government requires assistance.¹⁶³

Challenges

- There is no regulated procedure for soliciting public opinion on new laws or regulations, although informal discussions are held with organizations representing the public and enterprises.
- Functional authorities between central and subnational government entities regarding fiscal management are unclear. The Constitution grants municipalities financial, technical, and administrative autonomy and the Municipal Code lists 30 areas of competence for municipalities, in which the central government may only intervene when the local government does not properly or sufficiently exercise its authority. However, as there is no clear definition of what properly or sufficiently is, many authorities assigned to municipalities are in practice shared with the central government, without a clear distinction between the functions of each level of government.¹⁶⁴
- The Probity Section of the Supreme Court oversees compliance with the Illicit Enrichment of Public Employees Law, which requires public officials to disclose their assets when entering and leaving public service. The law is fifty years old and implementation is largely ineffective in promoting transparency. Due to resource constraints, the Probity Section has limited authority and capacity to fulfill its mandate.

¹⁶¹ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁶² PEFA Assessment for El Salvador, 2009

¹⁶³ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁶⁴ El Salvador: Country Report on Observance of Standards and Codes, IMF, 2011

- There is limited legislation governing fiscal rules. There are no legislative limits to the maximum public deficit level, expansion in expenditure, investment, and debt, or other fiscal aggregates, with the sole exception of debt limits for local governments.

Budget Planning and Execution – The regulatory framework for budget formulation and execution is clear, complete, and detailed. The budget preparation process is open, as MDAs participate in discussions and the analysis of their proposals, and the approved budget is published on MOF’s Fiscal Transparency Portal.¹⁶⁵ The process begins in April when MOF’s macroeconomic projections are distributed to MDAs. Prior to September 30, MOF must analyze the draft MDA budgets, discuss draft budgets with MDAs, and then consolidate and submit them to the Council of Ministers before they are forwarded to the Legislative Assembly. The Legislative Assembly has three months to examine and debate the draft annual budget. If the Legislative Assembly does not approve the draft annual budget in the established time frame, the fiscal year will begin with the budget approved for the prior fiscal year, as currently amended. Ultimately, the Legislative Assembly approves several budgets: the national budget, special budgets (of non-state financed institutions), extraordinary budget (comprising investment and debt), and the budget for special activities (for institutional funds unrelated to an entity’s objectives). As such, the total executed budget for a given entity must be obtained from these various budgetary documents.¹⁶⁶ As part of its fiscal modernization plan, GOES is taking steps towards preparing results-based and multi-year budgets. The government has piloted results-based/multi-year budgeting in two MDAs, the Ministries of Health and Agriculture, and a current USAID program includes a component to assist at least 25 public entities to use results-based/multi-year budgeting by 2015. All central MDAs and the 22 largest, out of 262, municipalities record public expenditures through the FMIS (SAFI); the remaining municipalities provide data for the consolidated government accounting system using standardized forms. Current budget laws do not allow spending in excess of appropriated amounts and do not give MOF discretion as to the reallocation of funds between MDAs after the budget has been approved. Any amendments to the budget are processed through the Legislative Assembly, use the same annual budget classification, and specify the financing sources.¹⁶⁷

Challenges

- The budget reflects the strategies and spending directives in the national plan within the constraints of GOES’ fiscal objectives. In this way, the budget is policy-based; however, sectoral or institutional policies are generally not well developed.¹⁶⁸
- By law, 8% of the central government’s revenue is transferred to municipalities.¹⁶⁹ Allocation to individual municipalities is based on a formula that takes into account population, poverty index, and geography. Some smaller municipalities are almost entirely dependent on these transfers, as municipalities have very limited own source revenue potential.
- In 2012, approximately 65% of the budget was allocated to only four sectors (Finance, Education, Health, and Public Security). As a result, other MDAs are severely restricted in their ability to provide services to the citizenry.¹⁷⁰

Treasury Operations and Cash Management – Under the regulatory framework, MOF is responsible for normative functions of financial management, and operational aspects are placed on institutional financial units. Treasury operations include revenue collection and expenditure processes. GOES is implementing a

¹⁶⁵ <http://www.transparenciafiscal.gob.sv>

¹⁶⁶ PEFA Assessment for El Salvador, 2013

¹⁶⁷ El Salvador: Country Report on Observance of Standards and Codes, IMF, 2011

¹⁶⁸ PEFA Assessment for El Salvador, 2009

¹⁶⁹ *Ley del Fondo para el Desarrollo Económico y Social de los Municipios* (amended by Decree 563-2010)

¹⁷⁰ PEFA Assessment for El Salvador, 2013

decentralized TSA system with donor assistance to minimize inefficiencies associated with the administration of nearly 1,400 bank accounts. Bank accounts managed by Treasury capture revenues and transfer budgetary allocations, and subsidiary bank accounts are managed by MDAs and authorized by the Treasury.¹⁷¹ The main TSA account is maintained at the Central Reserve Bank. MDA bank accounts are maintained at commercial banks. Transfers are made from the TSA to individual MDA bank accounts through intermediary accounts maintained by commercial banks at the BCR.¹⁷² Treasury performs daily consolidation and reporting of cash balances, and monthly account reconciliations. Institutional financial units must submit monthly bank reconciliations and balance information for all their accounts to Treasury and the Accounting Directorate. Debt management is monitored using a database (SIGADE), which contains information on external and internal debt. SIGADE is still not linked to SAFI, so there are data differences between the systems (attributed to differences in the accounting methods used in each system).¹⁷³ Reconciliations are not performed regularly. GOES is in the process of modernizing SIGADE and building a module to integrate the system with SAFI.

Challenges

- TSA implementation is ongoing, although roll-out to all MDAs is expected by end 2014.¹⁷⁴
- There are compatibility issues between the TSA and SAFI. There are problems of usability that generate issues for centralized payments. However, these will be addressed in SAFI upgrades currently under way.

Procurement – The Public Procurement Law covers all procurement and contracting of works, goods, and services by all MDAs, municipalities and auxiliary organizations, autonomous state-owned enterprises, and any other organization that utilizes public funds. The law also established the Public Administration Procurement and Contracting System (SIAC), which decentralized procurement activities. The Regulatory Unit for Procurement and Contracting (UNAC), an independent entity within MOF, manages SIAC and is responsible for promoting procurement guidelines and procedures and for providing technical assistance to MDAs on matters related to compliance with the procurement law. With only 16 full-time employees servicing over 384 institutional procurement units, UNAC is understaffed.^{175, 176} The Attorney General’s Office (FGR) represents the state in matters related to public contracts, including investigation of non-performance. Institutional procurement units (UACIs) are responsible for public procurement, and FGR approves all contracts for real or moveable property. This might pose a conflict of interest because contracts approved by the FGR may warrant FGR’s investigation at a later point.¹⁷⁷ GOES is developing a new e-procurement system with the financing and support of USAID. The system will be fully transactional and web based.

Challenges

- Under the Public Procurement Law, direct contracting only requires approvals at the MDA level, regardless of amount. The law does not establish sufficient controls or requirements for direct contracting, opening the door to abuse.¹⁷⁸

¹⁷¹ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁷² PEFA Assessment for El Salvador, 2009

¹⁷³ Ibid.

¹⁷⁴ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁷⁵ Ibid.

¹⁷⁶ Information confirmed by USAID/El Salvador, April 2014

¹⁷⁷ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁷⁸ Information provided by USAID/El Salvador Mission, April 2014

- In addition to the possibility of conflict of interest, contracts are often delayed awaiting the required approval by the FGR. This causes a bottleneck in the flow of funds, affecting timely budget execution and service delivery.
- Recent reforms to the procurement law require the use of a website (COMPRASAL) for publishing public bids, but this is limited by internet access.¹⁷⁹ In the USAID PFMRAF Stage I Rapid Appraisal, it was found that 73% of institutional procurement units are currently using COMPRASAL. Those that do not are primarily municipalities that do not have internet access. UNAC gives these municipalities access to UNAC's offices to use the internet. Neighboring municipalities with internet capability also allow those without internet to use their resources.
- UNAC is a rule-making and supervisory body, but does not approve procurement plans or individual procurements.
- Commitments are not registered for public procurements. Institutional procurement units verify with the MDA's institutional financial unit that there is budget availability for procurements, but the procurement is not registered as a commitment in SAFI. This increases the risk that funding will not be available when payment is due.¹⁸⁰
- Procurement personnel in institutional procurement units lack specialized training. Due to understaffing, UNAC is unable to provide trainings or certify procurement personnel.

Accounting and Financial Reporting – Transactions are recorded in the accounting system on an accrual basis. Government accounting rules are based on GAAP, although the reports are not based on IPSAS. According to the 2013 PEFA Assessment, GOES is in the process of adopting IPSAS with WB assistance.^{181 182} The government accounting standards and internal controls standards are defined in the Manual on Government Finance. All central MDAs submit to MOF their financial statements and budget execution data on a monthly basis. Budget classifications used in budget preparation, execution and reporting are consistent with GFSM classifications, but functional and sub-functional classifications are not consistent with COFOG.

Challenges

- The Legislative Assembly does not receive timely quarterly reports on budget outturn during the year, nor does it conduct midterm reviews.

Internal and External Audit – Internal control, internal audit, and external audit are guided by the same framework (National System for Control and Audit of Public Management), and operate under the authority of the Court of Accounts. The Court of Accounts conducts external audits, prescribes internal controls, and regulates the performance of internal audits. The rules governing the internal audit function are based on international standards established by the Committee of Sponsoring Organizations. Internal audit is decentralized and has modern regulations and processes; it is implemented by each entity's internal audit unit, and effectiveness varies across MDAs, largely influenced by the budget that each MDA decides to allocate to its internal audit unit.¹⁸³ Only some municipalities have internal audit units. The general internal control standards are available on the Court of Accounts' website and are reviewed and updated every two years. External oversight bodies include the Court of Accounts and committees that may be formed by the Legislative Assembly to investigate or review specific issues. The Court of

¹⁷⁹ <http://www.comprasal.gob.sv/moddiv/HTML/>

¹⁸⁰ PEFA Assessment for El Salvador, 2013

¹⁸¹ Ibid.

¹⁸² El Salvador: Country Partnership Progress Report, WB, 2011

¹⁸³ PEFA Assessment for El Salvador, 2013

Accounts is independent of the Executive branch and, under the mandate of the Court's organic law, has authority to audit, investigate, prosecute, and sanction fraud and the misuse of public funds.

Challenges

- Under the regulatory framework, each public sector entity is required to establish its own internal controls and is accountable for their design and operation. As such, the audit and internal control standards are considered adequate with respect to their design, but their application does not fully ensure transparency or effectiveness.¹⁸⁴
- The Court of Accounts has audit as well as judicial authority and has been criticized for having two incompatible functions. The Court of Accounts has also been criticized for having been under the control of a political party for more than two decades, allegedly using its powers to promote a political agenda.¹⁸⁵
- The circulation of internal audit reports within MDAs is limited. As a result, the reports and recommendations issued do not generate much discussion, or contribute significantly to improving operational efficiency in financial management to ensure the optimal provision of public service.
- There is no committee within the Legislative Assembly to review external audit reports, thereby reducing oversight effectiveness.

Financial Management Information Systems – The financial management information system (SAFI) includes modules for budget execution and accounting.¹⁸⁶ SAFI is operational in all central MDAs and a municipal module, SAFIMU, is used in 22 of the largest municipalities (out of 262 total). Those municipalities outside the system report data for consolidation in the government accounting system, using forms designed by the Directorate General of Government Accounting. SAFI can account for donor funds separately. With international donor assistance, GOES is updating the FMIS, to facilitate roll-out to all municipalities, which will include at least four modules: budget preparation, treasury, accounting, and execution. The government is also in the process of developing SAFI II to include a module for investment and to integrate the public debt management system (SIGADE).

Challenges

- SAFIM implementation is ongoing. As of the 2013 PEFA Assessment, GOES has a conceptual model and a team dedicated to its development.
- Systems used for procurement, public debt management, and contract management are not linked to SAFI. Further, procurement controls in the system are all manual.

Human Resources – The Salvadoran civil service is regulated by the Civil Service Law enacted in 1962. The law provides for a Civil Service Tribunal as well as Civil Service Commissions that operate at each MDA and are responsible for the selection of candidates and the establishment of standards for promotion, salaries, reprimands, etc. Payroll expenditures, which comprise approximately 75% of the national budget,¹⁸⁷ are subject to adequate internal controls, mainly based on the Integrated Human Resource System (SIRH) operated by all public sector entities. All HR management related transactions that have payroll implications are handled through SIRH and communicated to Treasury for respective action. SIRH is not currently integrated with SAFI, but there is an interface mechanism that transfers information from SIRH to SAFI. The USAID Fiscal Policy and Expenditure Management project intends to integrate SIRH into SAFI.

¹⁸⁴ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁸⁵ Ibid.

¹⁸⁶ PEFA Assessment for El Salvador, 2009

¹⁸⁷ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

Challenges

- Prevailing practice is that when there is a change in administration, the incoming head of an institution makes the decision whether to keep or dismiss technical employees. As a result, there is approximately 40% turnover of employees with each change in administration.
- The Civil Service Tribunal is weak, poorly staffed, narrow in scope, and without sufficient funding even to complete its current mandate.
- Civil service employment procedures are not implemented consistently across Civil Service Commissions, and although there is a merit-based civil service system regulated by the Civil Service Law, it is not followed. According to the USAID Stage I Risk Assessment, there are only a few cases of public employees that entered the civil service through a competitive process, or that were promoted through the mechanisms established by the Law.¹⁸⁸

International Donor Activities

- The IMF has been providing technical assistance to GOES on fiscal reform, regional harmonization of financial statistics, audits, TSA implementation, MTEF, and enhancing capabilities in debt sustainability analysis.
- WB is providing technical assistance to GOES on SAFI upgrades and implementation, the design of an e-procurement system, and harmonization of government classifications by program. A Fiscal Management and Public Sector Performance Technical Assistance loan (P095314) is still active.
- IDB disbursed \$1.1 million of a \$5 million loan commitment for the modernization of the State. It is working with GOES to modernize the procurement regulatory framework, processes, and systems. In late 2013, IDB approved the use of El Salvador's public procurement system (as well as the systems of seven other LAC countries) for bank-financed projects.¹⁸⁹
- USAID participates in a multi-donor effort with the goal of enhancing GOES transparency and accountability, and making more efficient use of public resources. The Good Governance project works with GOES to fight corruption through the Sub-Secretariat for Transparency. The Fiscal Policy and Expenditure Management program provides assistance in selected PFM areas, including budget preparation, management of expenditure and budget execution, national accounting standards, integration of SIRH and SAFI, and additional SAFI modules. USAID also supports the strengthening of the revenue authority, providing technical assistance on taxpayer current account, taxpayer registration, and overall improvement of the tax collection system, as well as developing a new tax control system.
- The EU assists GOES with the implementation of budget planning tools, including an MTFF and policy-based budgeting instruments.
- The German Development Agency (GIZ) is providing technical assistance to GOES on budgeting instruments and budget classifications. The agency is supporting the development of SAFI II, and supporting the strengthening of the tax administration in coordination with USAID.

¹⁸⁸ USAID PFMRAF Stage I Rapid Appraisal for El Salvador, 2011

¹⁸⁹ "IDB approves the use of public procurement systems in eight Latin American and Caribbean countries," IDB press release, Nov 2013

Annex V – Guatemala



Fiscal indicators (% of GDP) ¹⁹⁰	2009	2010	2011	2012 ^a	2013 ^a
Gross Domestic Product ^b	\$37,734.00	\$41,338.00	\$47,689.00	\$50,236.00	\$54,790.00
General Government Revenue	11.1	11.2	11.6	11.7	12.1
Gen. Gov. Total Expenditure	14.2	14.5	14.4	14.1	14.3
Gen. Gov. Net Lending/Borrowing	-3.1	-3.3	-2.8	-2.4	-2.2
Gen. Gov. Gross Debt	22.9	24.1	23.7	24.4	24.9

Country Facts ¹⁹¹	
Population	15.5 million
GDP per capita	\$3,482
GDP per capita (PPP)	\$5,265
Unemployment	N/A
Inflation (% change)	4.8%
HDI Ranking	133



Key Findings for Guatemala

- Guatemala’s PFM systems and practices are relatively advanced, but budget controls are largely underdeveloped.
- According to the Constitution, 10% of central revenues must be transferred to municipalities, accounting for approximately two-thirds of total municipal revenues.¹⁹²
- Although budget reporting has been described as generally of high quality, off-budget revenues and expenditures are common. The use of trust funds (*fideicomisos*) and NGOs through which to funnel funds has led to the circumvention of budget and procurement laws. Cash resources managed by these vehicles are not managed within the TSA and do not follow PFM and procurement procedures, undermining budget credibility. There are regular audits of *fideicomisos* (most operate in accordance with international standards), but this does not guarantee the prudent use of resources in support of government priorities.¹⁹³
- The accumulation of payment arrears (“floating debt”), or the generation of accruals without budget availability, has been a long-standing concern in Guatemala; this is complicated by the fact that parts of the budget can be executed outside of the PFM systems.
- Funds provided by donors for direct budget support are administered through national systems. However, loans or donations to support programs and projects with resources from loans are

¹⁹⁰ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

¹⁹¹ Ibid. All values as of 2013.

¹⁹² Guatemala Public Expenditure Review, WB, 2013

¹⁹³ Ibid.

generally not administered according to national procedures. Loans or donations are not subject to audit by the SAI, and instead are audited by an independent auditing firm.¹⁹⁴

- Procurement processes are slow with average times for the procurement cycle ranging between 150 to 250 days due to problems with technical specifications, lack of available budget, and appeals by the potential suppliers. The Government of Guatemala (GOG) has tried to address these issues by developing the e-procurement platform, Guatecompras, which is partially linked to the FMIS (SIAF), and requires that all steps in the procurement process be followed before payments can be undertaken.
- Guatemala uses a modified accrual accounting system, but the accounting standards are not specific to the public sector. Implementation of cash IPSAS is under way as part of an overall PFM reform initiative, with the eventual goal of adopting accrual IPSAS for government entities at all levels.¹⁹⁵ However, SIAF has limitations that make it difficult to incorporate standards. The current system does not report information at the level of detail and disaggregation required by IPSAS. The system also cannot automate cash flow statements, a requirement of IPSAS 2.
- Due to legal ambiguities and limited resources, the Comptroller General has limited ability to impose sanctions. Violations related to the budget process go largely unpunished.

Country Summary across PFM Dimensions

PFM Governance – The Guatemalan public sector includes the central government (29 entities comprised of the Executive, Legislative and Judicial branches, 21 non-business decentralized entities, 4 non-business autonomous institutions, and 2 social security institutions) and 44 decentralized institutions (includes non-financial public enterprises, financial public enterprises, and subnational governments). The 2010 PEFA reports that Guatemala has made very important advances in almost all aspects of PFM over the past two decades, though these have been implemented mostly at the central level. PFM is governed by a strong legal and regulatory framework, but there are gaps in the implementation of control measures. MOF has the authority to monitor budget execution in every public sector entity. External control authority is given to CGO, which oversees the implementation of mechanisms to ensure transparency. Governmental control consists of a set of technical and legal activities and actions, exercised by CGO and IAUs, in order to assess the operational, functional, and legal domain of public entities through standardized audit practices. CGO produced the Conceptual Framework for Internal Control for all central government entities, complementing the General Norms of Internal Control adopted by each entity. GOG created online platforms to facilitate access to information, and has improved administrative procedures for taxpayers and tax administrators. Corruption remains a problem in Guatemala, although the GOG has taken additional efforts to combat it, particularly in procurement processes.

Challenges

- Implementation of PFM regulations at the municipal level remains incomplete.
- PEFA evaluators found significant and frequent non-compliance with internal controls. There are no risk-based evaluations of the different processes, organizational units, and budget execution items. Some entities and trusts apply their own procedures and are not obligated to comply with regulations applicable to the public sector.
- WB found that the regional distribution of public expenditure shows large disparities. Transfers to subnational governments are allocated according to a formula that considers only population, number of villages and hamlets in each municipality, and per capita own-source revenue. Central government

¹⁹⁴ PEFA Assessment for Guatemala, 2010

¹⁹⁵ Combined Use of IPSAS and IFRS, Instituto Nacional de Contadores Públicos de Colombia, 2013

expenditure allocations tend to disproportionately benefit geographic areas that are not the neediest in terms of poverty or social indicators.

- The 2008 Guatemala Investment Climate Assessment highlighted corruption as one of the greatest obstacles faced by business.¹⁹⁶

Budget Planning and Execution – The responsibility for budget formulation is assigned to the Technical Commission for Public Finance (CTPF), a body presided over by a Vice-Minister of Finance and composed of high-ranking MOF, National Planning Secretary (SEGEPLAN), Tax Administration (SAT) and, upon invitation, Central Bank (BANGUAT) officials. Between January and May each year, MOF and SEGEPLAN elaborate and deliver the strategic orientation of public policy, budget norms, norms for the elaboration of annual operating plans, and draft budget ceilings to public institutions. Between April and May, revenue projections are calculated by SAT and MOF on the basis of macroeconomic projections by BANGUAT, and MOF undertakes public debt projections. MDAs deliver their budget proposals to MOF by the start of July. SEGEPLAN provides technical support to the Planning Units of MDAs and autonomous institutions, as well as to the technical units of the Development Councils with regard to their policies, plans, programs, and development projects in their budget preparation. The draft budget bill is presented to Congress by September 1. Congress must approve the budget before the start of the fiscal year on January 1, which is usually done by December 1. Although the budget calendar is clear, there is not strict compliance with the calendar. CTPF oversees budget execution and compliance is facilitated by the FMIS (SIAF), particularly through the accounting (SICOIN), reporting (SIGES), procurement (Guatecompras), and HR administration (Guatenominas) subsystems. In general, budget regulations require reporting of all revenues (including aid), but, for expenditures, some MDAs use extra-budgetary expenditure mechanisms. Budget credibility, in the aggregate, received very high marks during the 2010 PEFA evaluation, but there are differences in the composition of actual expenditures as compared to the approved budget, particularly for the education, health, and security sectors.

Challenges¹⁹⁷

- The budget classification is not fully aligned to international standards.
- Currently, annual budgets are formulated based on past allocations, leading to modifications throughout the fiscal year. Traditional programs are generally not reassessed or revised.¹⁹⁸
- Although the GOG adopted a policy-based budgeting approach using cost estimation, the approach is not fully implemented because SIAF cannot track expenditures by disaggregated spending categories. This limits sectors to include in the budget only aggregate activities, which facilitates reallocations among categories throughout the fiscal year.
- Income projections made during the budget planning process are generally not accurate and budget modifications are common throughout the fiscal year. Deviations have been rising since 2009, and are highly discretionary and significant in scope.
- Off-budget expenditure vehicles are common. There is no specific legislation to regulate the operations of *fideicomisos* or arrangements with NGOs; as a result, GOG makes expenditures without appropriate controls. Emergency situations are often used as justification for the extended use of emergency procedures, including streamlined procurement processes and extraordinary extensions of contracts without the guaranteed availability of resources.

¹⁹⁶ Guatemala: Investment Climate Assessment, WB, 2008

¹⁹⁷ Guatemala Public Expenditure Review, WB, 2013

¹⁹⁸ Ibid.

Treasury Operations and Cash Management – GOG uses a TSA called the “Common Fund,” which is managed by the Treasury. The Common Fund is comprised of accounts in three different currencies (quetzal, U.S. dollar, and euro). From these accounts, Treasury pays state providers directly or transfers funds to the accounts of MDAs and programs. MDAs maintain separate accounts with revolving budget funds, but can also maintain separate, off-budget accounts for funds received from NGOs, multilaterals, and international bodies. In the latter arrangement, the responsibility for account reconciliation belongs with the MDA that manages the account. Currently, the reconciliation of all bank accounts administered by Treasury is realized daily through SICOIN, which compares electronic bank records with accounting records. The National Accounting Directorate also carries out manual reconciliations when necessary. Tax collection is the responsibility of SAT, though municipalities also collect revenue from local taxes. Cash flow forecasts are done once a year in November to support budget formulation for the next fiscal year. The monitoring of cash flows is carried out by Treasury on a daily basis in relation to cash balances, and monthly when accrued fees must be reported.¹⁹⁹ Debt management is performed by both MOF and the Central Bank, though each entity uses a different application. Information on the debt is monitored daily, updated monthly, and reconciled twice a year; it is made available on MOF’s website.

Challenges

- Revenue projections are generally unrealistic, affecting cash management during the fiscal year.
- Under the General Budget Law, no commitment or accrual can be generated without a corresponding budget credit, otherwise a payment arrear emerges. In practice, MDAs register commitments and accruals when a payment order is processed, but, if there are insufficient funds, they may not register the invoice in the SICOIN system resulting in floating debt. According to WB, because of recent fiscal pressures, some ministries have executed contracts without funding, leading to unapproved expenditures and unrecorded payment arrears.²⁰⁰
- According to PEFA evaluators, reports on public debt are provided only occasionally, and their scope is limited.

Procurement – Public acquisition is regulated by the Contracting and Procurement Agency. Procurement is decentralized, and although there is a single procurement law, there is a lack of standard procurement documents and guidelines, and each MDA applies the rules differently. GOG developed Guatecompras,²⁰¹ an e-procurement platform linked to the financial management system. Guatecompras requires that all steps in the procurement process be followed before any payments can be authorized, instituting controls in the system; however, the platform does not allow for online transactions, such as electronic bidding and purchasing. GOG has also developed a contract management system that captures the planned, awarded, and final amounts of each individual contract.

Challenges²⁰²

- There is fragmentation and a lack of coordination in procurement processes; contracts are not standard, and a high level of subjectivity is applied by different MDAs. Agencies often employ practices to either bypass or avoid system controls. This makes oversight by civil society and regulatory authorities extremely difficult and increases the risk of corruption.
- An evaluation of the procurement system in 2011 found that 84% of public procurement used extraordinary processes and 6% used sole-source procurement, for a total of 90% of national public procurements carried out by noncompetitive methods.

¹⁹⁹ PEFA Assessment for Guatemala, 2010

²⁰⁰ Guatemala Public Expenditure Review, WB, 2013

²⁰¹ <http://www.guatecompras.gt/default.aspx>

²⁰² Migliorisi, “Guatemala: World Bank Country-Level Engagement on Governance and Anti-Corruption,” WB, 2011

- The public procurement system does not have an independent tribunal to address complaints or investigate infringements in the public procurement process. This function is carried out through the court system, and as such is subject to its limitations. The process is slow and there is a very low level of convictions in relation to the number of processes opened.
- There are significant barriers for private sector participation in the public procurement system, including: lack of trust in the transparency of procurement processes; the perceived partiality of awarded contracts; lack of a government policy to increase competition; lack of certainty on timeframes for payments; changes in contract conditions and timeframes for execution; and the weakness of government contract supervision.²⁰³

Accounting and Financial Reporting – Guatemala uses a modified accrual accounting system.²⁰⁴ The accounting system does not have national accounting standards specific to the public sector, and GOG uses the Generally Accepted Accounting Principles applicable to the private sector. Implementation of IPSAS is currently under way as part of the overall effort to improve accounting and financial reporting, but SIAF will need updates to be fully compliant with the standards.²⁰⁵ The central government’s financial statements represent fairly their financial situation; in general, CGO’s opinion has been unqualified. Decentralized and autonomous MDAs are audited based on the financial statements and reports generated by the respective FMIS subsystems (SIAF-Muni for municipal governments); in general, CGO’s opinion on these financial statements has been a mix of unqualified and qualified opinions. Budget classifications are based on GFSM, but the functional classification of expenditures is not fully aligned to international standards. The economic classification of expenditures is incompatible with SICOIN’s accounting categories. Nevertheless, the GOG uses the IMF’s “Bridge Formats” to harmonize accounting and budgetary information in order to report government finances to the IMF.²⁰⁶

Challenges

- The accounting and registry of works and public infrastructure built through *fideicomisos* is not transparent. In general, these works and infrastructure are the property of *fideicomisos* and are kept in their accounting books. However, there is no reconciliation of accounts before they are transferred to the government financial system. The *fideicomisos* have little incentive to regularize expenditures in a timely manner (e.g., through invoices and receipts registry into the SICOIN).
- SIAF has limitations that make it difficult to incorporate IPSAS. The current systems do not report information at the required level of detail and disaggregation required by IPSAS.²⁰⁷ Further, the system cannot automate cash flow statements, a requirement of IPSAS 2. According to WB, MOF is interested in options for a new IT system.
- GOG faces challenges in producing its financial statements and reports according to international standards. In particular, budget execution reporting excludes certain types of transactions, and there are weak mechanisms to prevent the execution of transactions outside the system. This makes it possible to execute part of the budget outside of SICOIN.²⁰⁸
- Consolidated financial statements of only the central government are prepared, and information on expenditures, revenues, and account balances contains significant omissions, including: omissions in the recording of revenues; incorrect account balances; and omissions of floating debt.²⁰⁹

²⁰³ Guatemala Public Expenditure Review, WB, 2013

²⁰⁴ IPSAS Implementation Strategies, Instituto Nacional de Contadores Publicos de Colombia, 2013

²⁰⁵ IPSAS Board: Guatemala’s IPSAS Adoption Experience, 2013,

²⁰⁶ PEFA Assessment for Guatemala, 2010

²⁰⁷ *Impacto de las NICSP en los Sistemas Integrados de Administración Financiera – RD*, IPSAS Workshop in Costa Rica, 2013

²⁰⁸ Guatemala Public Expenditure Review, WB, 2013

²⁰⁹ PEFA Assessment for Guatemala, 2010

Internal and External Audit – IAUs in every MDA are responsible for evaluating internal control structures, operational systems, and information flows in order to prevent errors or irregularities. CGO is the supreme audit institution that audits revenues, expenditures, and, in general, all financial matters of the state, municipalities, decentralized and autonomous entities, and persons that receive state funds or make public collections. CGO follows the Government Auditing Standards, which are consistent with the standards recommended by INTOSAI. CGO audits are comprised of reviews of legal compliance and the quality of executed budget accounting and internal controls. However, audits do not focus on the quality of internal control systems for each MDA or the central government.²¹⁰

Challenges

- According to the 2010 PEFA report, IAUs have not been structured to conform to the Government Auditing Standards and their independence is relative, as the internal auditors are freely appointed and removed by the highest executive authority within that MDA.
- CGO does not perform audits based on value for money or results.
- CGO does not have a follow-up system to supervise the level of implementation of its recommendations or resolutions of the causes that lead to negative decisions, decisions with exceptions, or abstentions. Statistics which could reveal the level of assimilation or improvements on budget execution procedures are not available in the CGO management report.²¹¹

Financial Management Information Systems – Guatemala uses SIAF, an FMIS developed by WB. SIAF covers the core PFM systems (budget, treasury, and accounting) in most central government and public entities (using the accounting module SICOIN) and municipal governments (via SIAF-Muni). It operates under a web platform that enables users to interact with the system in real-time and produce online reports, many of which are publicly accessible. SIAF enables MDAs to track and assess financial and administrative processes through a reporting system (SIGES). SIAF is also partially linked with the e-procurement system (Guatecompras), the public investment system (SNIP), and the HR database (Guatenominas). The system was developed in the early 2000s, so it requires substantial upgrading in order to implement many PFM reforms, including the adoption of IPSAS. According to WB, the government is interested in options for a new core FMIS system.²¹²

Challenges²¹³

- The creation of trust funds and other mechanisms to execute budgeted resources outside SIAF (to bypass cumbersome procurement legislation) undermines the credibility of the PFM systems, because most of these are not regulated by the budget laws. Various MDAs regularly execute their budgets outside SIAF systems.
- WB found it difficult to obtain budget execution data by municipality or department. The availability of sectoral outcome indicators at the subnational level was even more limited.

Human Resources – Guatemala's wage bill, which accounted for 27% of total expenditures in 2011, is the one of smallest in LAC.²¹⁴ A Civil Service Law regulates the employment of public officials of the central government. Decentralized entities, public enterprises, and special entities, such as the CGO, manage HR under regimes other than the Civil Service Law. Guatenominas, the largest HR database and

²¹⁰ Ibid.

²¹¹ Ibid.

²¹² Guatemala Public Expenditure Review, WB, 2013

²¹³ Ibid.

²¹⁴ [2010 Civil Service Statistics, GOG website](#)

payroll management module, contains personnel information linked to the payroll of 63 public institutions governed by the Civil Service Law, but excludes those entities not regulated by the Civil Service Law. HR and payroll administration via Guatenominas is clearly defined by procedural manuals. The system has controls that prevent duplicate names. Entities that utilize Guatenominas to record payroll require approval by either the National Civil Service Office or the Budget Directorate (depending on the type of transaction) before payment is processed by the Treasury. Although all MDAs maintain both physical and digital personnel files, there is no single database that compiles and centralizes the information.

Challenges

- Guatenominas includes only staff at the central government and some decentralized and autonomous entities, but not all civil service staff. In addition to the lack of a single HR database, there are incomplete descriptions of personnel profiles.
- As of the 2010 PEFA evaluation, no full audit had been realized on central government personnel and payroll records in the last three years assessed. The audit of the remaining institutions includes a payroll review to detect administrative errors in data records, but this review is only a partial audit.
- Payroll reconciliations are not performed on a regular basis, and payroll audits repeatedly find deficiencies in both personnel records and payroll administration.

International Donor Activities

- WB's Institutional Development Fund grant in 1994 that was used to assess PFM practices and roll out SIAF was the vanguard for a series of loans totaling US\$69.5 million. WB, the Japan Policy and Human Resources Development trust fund, USAID, and UNDP provided financial and/or technical support for the project. More recently, the EU has provided support for the strengthening of government training programs for government staff executing the system. IDB also provided parallel financing.²¹⁵
- WB provided funds for a First Programmatic Development Policy Loan (P131763) totaling \$200 million, which included technical assistance for tax policy and administration, civic engagement, and PFM and procurement assistance.
- IDB is providing technical assistance to Guatemala City to strengthen the financial and fiscal institutions to increase collection of property and other municipal taxes.
- IMF has provided technical assistance over the past three years to help improve/reform a TSA, revenue and customs administration, control of budget execution, debt management strategy, revenue forecasting, cash flow and financial planning, public expenditure management, macro-fiscal framework, and national accounts statistics, among many other areas.
- USAID has provided training for the Anti-Corruption Commissioner's Office and its Civil Society Advisory Board, CSOs, the Comptroller General, Congressional oversight committees, and the Office of the Prosecutor for Anti-Corruption to enhance government accountability.
- The U.S. Department of the Treasury is providing MOF with technical guidance on IPSAS adoption.

²¹⁵ Guatemala Public Expenditure Review, WB, 2013

Annex VI – Haiti



Fiscal indicators (% of GDP) ²¹⁶	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$6,470.00	\$6,635.00	\$7,346.00	\$7,776.00	\$8,355.00
General Government Revenue	17.9	28.4	29.8	23.3	20.7
Gen. Gov. Total Expenditure	22.5	26.0	33.5	28.4	26.2
Gen. Gov. Net Lending/Borrowing	-4.6	2.4	-3.7	-5.1	-5.5
Gen. Gov. Gross Debt	28.2	17.7	12.2	15.4	20.4

Country Facts ²¹⁷	
Population	10.3 million
GDP per capita	\$803
GDP per capita (PPP)	\$1,301
Unemployment	N/A
Inflation (% change)	6.0%
HDI Ranking	161



Key Findings for Haiti

- PFM systems and practices in Haiti remain rudimentary, with essentially all PEFA dimensions scoring a “C” or lower. The significant PFM development challenges facing the country were exacerbated by the January 2010 earthquake. The Government of Haiti (GOH) suffered considerable losses (both loss of life and destruction of infrastructure), adversely affecting its ability to provide services to the population.
- The legal framework for PFM is relatively new. On many of the dimensions, the laws are relatively clear, but implementation is poor at the national and subnational levels.
- Several international agencies, including WB, IMF, and USAID, have declared that there are significant transparency issues, and direct, open access to information is almost non-existent.
- There is no legal framework guaranteeing public access to information (or a FOIA law equivalent), and GOH websites lack real-time information on public issues. Only final approved budgets are published on the MOF website, and information on budget execution is difficult to obtain.
- Corruption remains a problem, though GOH has taken efforts to address it, including the creation of the Anti-Corruption Unit. Nevertheless, in Transparency International’s Corruption Perception Index 2013 Survey, Haiti ranked as the most corrupt nation in the Americas, and placed 163 of 177 countries evaluated.²¹⁸

²¹⁶ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

²¹⁷ Ibid. All values as of 2013.

²¹⁸ Transparency International Corruption Perception Survey, 2013, http://www.transparency.org/whatwedo/pub/cpi_2013

- GOH is working towards establishing a TSA with IMF support. According to the November 2013 IMF staff visit, there has been progress, but work on complementary reforms needs to be accelerated for the TSA to be in place by end FY 2014.²¹⁹
- Coordination between donors and GOH is weak; the government is unable to communicate its priorities, and funds are managed and supervised by each entity or donor separately.
- Due to delays in the publication of procurement laws, procedures for contract administration vary depending on the procuring entity, with no central coordination or data collection.
- No integration exists between the revenue collection institutions and the various FMIS. MOF cannot access necessary data (including data from other MDAs) to perform financial analyses.
- Payroll controls are weak; comprehensive personnel databases do not exist, and payroll audits are not required.

Country Summary across PFM Dimensions

PFM Governance – The legal framework for PFM in Haiti is relatively new, governed by laws, decrees, and regulations covering all aspects of public financial preparation, presentation, execution, and controls. The 2008 PEFA Assessment identified several weaknesses in the PFM system, many of which GOH intended to improve. After the earthquake, however, GOH had to delay its reform agenda, focusing instead on providing basic emergency services to citizens. PFM reforms were delayed, resulting in deteriorating scores for many dimensions in the 2011 PEFA Assessment. Several reforms are now underway, including improvements to the budget planning process, improvements to the procurement systems, and advancements with the TSA. GOH has also created an Anti-Corruption Unit which has oversight mandate over all central and subnational government entities.

Citizens have a lack of confidence in local level governments, largely due to poor public services. Local governments in Haiti struggle with chronic shortages of resources, low capacity, and a fragmented legal framework. Although municipalities are legally able to levy local taxes, many rural municipalities do not have the institutional capacity to generate sufficient resources from local taxes and must rely on transfers from the central government. The 1987 constitution provides a suitable framework for decentralization, but little of its design has been codified into law. Instead, municipalities rely on a patchwork of laws, some dating from before the constitution, and many of which are contradictory, to determine their roles and functional authorities.

Challenges

- Public institutions are weak and severely underfunded, and GOH implements laws and regulations in an uneven manner at both the national and subnational levels. Oversight agencies lack the necessary training and tools to implement controls.
- There is no legal framework guaranteeing public access to information.
- According to several international organizations, corruption remains a problem. GOH has taken some measures to combat corruption, including the creation of an Anti-Corruption Unit, but the agency lacks the necessary human and financial capital to achieve its mandate.

Budget Planning and Execution – MOF oversees the budget preparation process and manages collections and expenditures through the Budget Directorate (DGB). The Ministry of Planning and External Cooperation develops the Public Investment Program. The Superior Court of Accounts and Administrative Disputes (CSCCA), as the supreme audit institution in Haiti, performs audits of the

²¹⁹ IMF Staff Visit press release, 2013, <http://www.imf.org/external/np/sec/pr/2013/pr13470.htm>

budget. Although MDAs participate in the national budget preparation process, it is not well understood how they prepare internal budgets; and strategic planning is not uniform across MDAs. However, certain MDAs have prepared multi-year strategies, and the most recent strategy proposals have included cost estimates. Local governments conduct meetings with MOF to agree on the proposed budget and expenditure levels. MOF approves the final budget, and Parliament votes on the budget (as well as any subsequent modifications). MOF manages GOH operational expenditures through the payments system (SYSDEP), while the investment budget is managed through the investment management system (SYPIP).²²⁰ Off-budget accounts are rampant, often because activities are externally financed by donors.

Challenges

- GOH does not consult the public or civil society in its annual budget formulations. Transparency measures are very weak and rarely respected.
- Budget credibility is low. While GOH tracks the execution of expenditures against monthly plans, it only does so globally rather than by MDA. There is significant variance in expenditures from the approved budget. According to the 2011 PEFA, there was considerable deviation between forecasted revenues and receipts: actual revenues were 90% below the forecast for each of the three years examined.
- PEFA evaluators found that it was difficult to establish a link between policy and fiscal performance in Haiti. This is partly because the budget preparation process lacks any reference to what constitutes the national policy. Moreover, the priorities detailed in the preliminary budget and budget circular are too global. Priorities are not easily translated into allocation of resources. There is no MTEF in place, although some MDAs have started to develop multi-annual strategies with cost estimation, and the GOH has started to undertake debt sustainability analysis.
- Although the legal framework for budget preparation is well-defined, the formulation process is weakened by a lack of adherence to the budget calendar. Because of delays in issuing the budget circular, MDAs do not have sufficient time to prepare adequate drafts, and sometimes do not even submit them.²²¹
- The budget execution process lacks an adequate manual. The existing manual is outdated and does not reflect many recent changes in the PFM system.
- Internal and external oversight of the budget is not effective given the lack of institutional capacity. Internal controls are very weak or not yet functioning. External controls are limited by the capacity of the SAI (CSCCA) and fact that the role of Parliament is limited to the approval of the budget.²²²
- Parliament's oversight role is limited; it does not conduct transparent reviews of the proposed national budget. Moreover, the budget lacks critical information from many central and subnational government entities.

Treasury Operations and Cash Management^{223, 224} – Haiti does not have a fully-implemented TSA; there are still many non-linked accounts in both the Central Bank (BRH) and *Banque Nationale de Crédit* (BNC), a commercial bank. Not all of these accounts are managed by the Treasury. With the support from IMF, WB, and the EU, MOF has been working on transitioning to a TSA. The effort is expected to be rolled out progressively with full implementation to be completed by October 2014. MOF has already closed over 300 inactive accounts out of 871 and has initiated action to consolidate the remaining

²²⁰ As of a recent assessment for a USAID proposal for FMIS development, it was found that SYSPIP is not used. GOH uses Excel instead. See, *Schéma Directeur Informatique 2013-2018*, ICON, 2013.

²²¹ PEFA Assessment for Haiti, 2011

²²² PEFA Assessment for Haiti, 2008

²²³ Ibid.

²²⁴ PEFA Assessments for Haiti, 2011

accounts into 3 TSA-linked accounts (for revenue, investment, and operating expenditures respectively). MOF has also updated the legal framework and trained a network of public accountants that are seconded to each MDA to manage the TSA accounts. Currently, revenue collections from Port au Prince are transferred daily to BRH, and collections from the provinces are transferred monthly to BNC. BNC, however, does not provide timely transfers or reports to BRH or the Treasury, and the balances are generally not reconciled. Constitutionally, monthly ceilings for expenditure commitments are limited to one-twelfth of the annual budget appropriations, which is not aligned with the cash flow needs of the MDAs. As such, there is no real cash flow planning or monitoring. Debt management is performed by the External Debt Unit in the Central Bank and the Public Debt Directorate in DGB, though monitoring is performed manually using Excel spreadsheets and non-specialized software. According to a July 2013 study of Haiti's FMIS systems, debt management responsibilities will be transferred from DGB to a planned Debt Directorate in Treasury, but no completion date is specified. Treasury has acquired software (SYSGADE) to automatize and improve debt management capabilities, but it is not utilized often.²²⁵

Challenges

- According to the latest IMF staff visit, there has been progress in implementing the TSA, but complementary reforms, such as cash management procedures, need to be accelerated for it to be in place by end of FY 2014.
- The use of a commercial bank to manage public funds has resulted in a situation where the banks are not transferring funds or information to the government on a timely basis.
- The country's treasury operations and debt management system do not adhere to international practices. Many of these processes are done manually.
- Monthly budget releases to MDAs are 1/12th of their annual budget in accordance with the Constitution rather cash flow needs; as a result, MDAs have difficulty with cash and expenditure management.
- All donors use Project Implementation Units for managing their project activities and require a separate account for each project to facilitate the tracking of funds.²²⁶ However, there is little or no formal coordination mechanism to link aid policies, projects, and programs to the country's priorities and budget needs.²²⁷

Procurement – The National Commission for Public Purchases was established by decree in 2005 as the functional and normative body for public procurement in Haiti. A more recent regulatory framework was passed in 2009, which applies to all types of goods and services procured by the central government, territorial entities, and autonomous bodies providing public services (exceptions include purchases made during states of emergency or for defense and national security). The procurement system is regulated by a detailed legal framework that includes a 2004 decree setting forth rules for public contracting, a 2006 Executive Order revising thresholds for Commission review of contracts, the 2009 Procurement Law, and 14 implementing decrees. Contracts over 1 million gourdes (approximately \$22,000 USD) require a bidding process that must be reviewed and approved by the Commission. Contracts under the threshold may be awarded without the review and validation of the Commission. GOH has taken several steps to curtail procurement related corruption, the most important being the creation of the Anti-Corruption Unit which has been active in public procurement oversight, and the inclusion of provisions addressing corruption, fraud, conflicts of interest, and unethical behavior in tender and contract documents.

²²⁵ *Schéma Directeur Informatique 2013-2018*, ICON, 2013

²²⁶ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

²²⁷ PEFA Assessment for Haiti, 2008

Challenges

- As of the USAID Stage I Rapid Appraisal in 2012, 14 of the 17 procurement implementing decrees had been adopted, but only four had been published. The publication of the decrees is necessary to facilitate implementation of the Law and to clarify the purchasing procedures.²²⁸
- Due to delays in the publication of the procurement decrees, procedures for contract administration vary depending on the procuring entity, with no central coordination or data collection.
- The system for control and audit of procurement in Haiti is weak. Although all MDAs have established and staffed ministerial procurement units, technical capacity is insufficient.
- CSCCA, the SAI, provides an official opinion (*avis motivé*) on all draft contracts, and approves and registers contracts once they are signed.²²⁹ This creates an inherent conflict of interest in that the CSCCA must audit the same contracts that it has approved.
- The appeal mechanisms available to contractors are limited.²³⁰ While provisions for dispute resolution are included in all government contracts, when cases are referred to the CSCCA, disputes are rarely submitted for mediation. Contractors and suppliers are reluctant to submit disputes to the CSCCA because of concerns about the timeliness of decisions and the independence of the Court, whose members are all former civil servants.

Accounting and Financial Reporting – In 2006, GOH adopted a new General State Accounting Plan (PGCE). As of the 2008 PEFA report, GOH had initiated the implementation of a new accounting and financial framework (RGCP) based on accrual accounting, but which did not use IPSAS as a reference. The general accounts examined during the 2011 PEFA evaluation did not specify whether they followed the RGCP framework, or even the accounting method used. Moreover, a review of accounts during the 2011 PEFA showed that these did not conform to IPSAS, and did not apply the new adopted standards from PGCE or RGCP. Expenditures are still reported on a modified cash basis, though the public accounting authority promotes the adoption of IPSAS.²³¹ Budget classifications are closely aligned to GFSM classifications. However, budget classifications are not closely aligned to the national accounting standards despite some efforts to harmonize them.

Challenges

- Reporting is inconsistent across MDAs. There is no standardization of forms or reporting formats. Many MDAs use their own subsystems for management of funds, and some do not have access to accounting software to track expenditures.
- Implementation of national accounting standards is in the early stages. Improving accounting and auditing standards to achieve the necessary level of financial transparency will take time and effort, particularly to develop the required technical capacity of the accounting and audit professionals in Haiti. It will also require significant technical assistance from the donor community.

Internal and External Audit – MDAs have no permanent internal audit units. Instead, the General Finance Inspectorate (IGF) serves as an internal audit body for the executive and conducts internal audits based on an annual internal audit plan. Beginning with the audits for FY2011, IGF has followed an internal procedures manual. However, neither the plan nor the procedures are based on risk principles, which is the international standard in ISSPIA internal audit practices. The capacity of IGF, in terms of both coverage and skills set, is very limited. Although the regulatory framework dictates that IGF audit all

²²⁸ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

²²⁹ PEFA Assessment for Haiti, 2008

²³⁰ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

²³¹ Action Plan developed by Chartered Accountants Association of Haiti. IFAC, 2013

government agencies, the fact that there were only 19 inspectors in 2011 meant that there was a low level of implementation of its mandate.²³² External audits are the purview of the CSCCA. In January 2010, CSCCA's headquarters were destroyed by a fire which has a deleterious effect on CSCCA's ability to fulfill its mandate due to staff absenteeism and poor working conditions until the move to new premises in 2012. Despite being a member of INTOSAI since 1993, CSCCA does not follow international audit standards and has no procedure manuals or code of ethics.

Challenges

- The internal audit procedures followed by IGF are not based on international standards. Audits focus solely on transactional verification.
- IGF and CSCCA are inadequately resourced to fully perform their oversight mandate.
- To be an effective oversight body, Parliament should assist CSCCA to enforce accountability across the government. However, the role of Parliament has been limited to the approval of budgets. Annual audit reports of CSCCA are not reviewed or approved by Parliament.
- A WB assessment of CSCCA in August 2012 observed that the external audit regulatory framework is outdated. The assessment highlights the conflict of interest that exists in CSCCA's dual role as comptroller ex-ante of Local Governance Units and as auditor ex-post of government accounts.

Financial Management Information Systems – The FMIS in Haiti comprises various applications used for different functions within budgeting, accounting, revenue administration, and oversight functions. ELABUD is used for budget preparation and SYSDEP is used for budget execution. MDAs send draft budgets to the Budget Directorate for input into ELABUD, and Parliament then validates the budget. Once approved, the budget is input to SYSDEP. CHEK is the Treasury's check-printing system; it generates a file of printed checks and sends the file to the Central Bank for authorization of payments. SYSPAY is used to process the payroll of civil servants; it tracks employees, calculates payroll, and transfers information to CHEK for payment. SYSPENS is used to process payment of civil and military pensioners. SYSCOMPTE is an internal cash management application used by MDAs. Most of these systems are linked, but many government entities also use other applications (not listed) that are not linked. GOH is planning the design and installation of an IT interface to achieve integration between these multiple financial systems.²³³ USAID is supporting GOH's efforts to improve and modernize its systems by providing assistance in the development of a full and completely integrated FMIS.

Challenges

- No integration exists between the systems used by revenue collection institutions and the FMIS used for budget execution. MOF cannot access the necessary data (including data from MDAs) to perform analyses.
- There is no interface between systems used by subnational governments and SYSDEP. Additionally, protocols for exchanging data between SYSDEP and the Departmental Coordination Unit (which represents the municipalities in Port au Prince) have not been defined.
- The various subsystems remain at different levels of implementation and functionality. Subnational entities are not linked to most of the central government's financial applications.

Human Resources – GOH has roughly 67,000 civil servants. The Office of Management and Human Resources (OMRH) has updated the GOH Modernization of the State Strategy and developed action plans for implementing a new system for classification of employee positions and a revision of the wage scale.

²³² PEFA Assessment for Haiti, 2011

²³³ USAID PFMRAF Stage I Rapid Appraisal for Haiti, 2013

Payroll management emerged as an area of concern during the 2008 PEFA evaluation; there were no standard procedures followed and no adherence to budgets or appropriations. Evaluators noted that a lack of discipline in the recruitment of civil servants had generated salary arrears, as there were no sanctions for recruitments made beyond the budget appropriations. Payroll controls are also weak – personnel databases and payroll management are done on separate systems, and there are no reconciliations between the two. Internal and external payroll audits are not performed.

Challenges

- Civil servants include permanent, contract, and temporary staff. PEFA evaluators found that permanent staff payments were managed through SYSPAY, but the Treasury did not have access to personnel databases or contract personnel lists.
- Salaries of contract personnel are managed through the system used for non-salary expenses, SYSDEP. As with SYSPAY, the Treasury does not have direct access to personnel lists.
- Workers routinely experience significant delays in the receipt of their salaries.
- Payroll controls are weak; a comprehensive personnel database does not exist and audits are not required.
- GOH Civil Service suffers from a lack of physical and financial resources. The 2010 earthquake destroyed many government buildings, and some MDAs are now housed in locations unable to accommodate all of their employees. Office supplies and equipment are in short supply, improperly or inefficiently used, or inoperative.

International Donor Activities

- The USAID Stage I Rapid Appraisal noted several donor supported PFM reforms currently under way.²³⁴
 - GOH Budget: The Ministry of Planning and External Cooperation, in close collaboration with the MOF, has commenced a triennial investment budget planning process, including donors' inputs, which will inform the GOH FY 2014-2016 budgets.
 - Fiscal Reform: With support from the United States Treasury, Office of Technical Assistance and the Canadian International Development Agency (CIDA), MOF is implementing its fiscal reform strategy and action plans within the Tax and Customs Directorates with the potential for direct impact on improving tax administration and increasing revenues.
 - Civil Service: OMRH updated the GOH Modernization of the State Strategy and developed action plans to include a new system for classification of employee positions and a revision of the civil service wage scale.
 - Procurement Systems: With IDB support, the CNMP is conducting an assessment of GOH procurement systems and compliance in relation to OECD-DAC standards. The findings and recommendations will inform the procurement reform strategy and action plan.
 - TSA: GOH is progressing towards fully establishing a TSA by identifying and closing dormant government accounts in the banking system. The Central Bank is in the process of consolidating the remaining accounts into three main accounts per ministry that will be linked to the core TSA account. The opening of the three ministerial accounts was expected to take effect in October 2013, but the benchmark was postponed to March 2014.
 - Integrated FMIS: USAID is providing financial and technical assistance to GOH to modernize and develop a fully integrated FMIS for the central government.²³⁵

²³⁴ Ibid.

²³⁵ See USAID's Request for Task Order Proposal No. SOL # 521-14-000003, Issued Nov. 14, 2013

- USAID/Haiti supports programs in the following areas: capacity building for CSOs to better combat corruption, rebuilding and reforming public administration infrastructure, and improvements to local and national government management of resources and service delivery, among many others.
- The IMF has provided technical assistance since 2005 in the following areas: macro-fiscal framework, tax policy administration, public accounting, cash and treasury management, strengthening debt management, national accounts, and financial statistics, among many others.
- WB supports GOH with an Economic Reconstruction and Growth Development Policy Grant Project (P127208) to support institution building and the strengthening of economic governance in sectors critical to reconstruction and growth.

Annex VII – Honduras

Fiscal indicators (% of GDP) ²³⁶	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$14,484.00	\$15,727.00	\$17,586.00	\$18,436.00	\$19,139.00
General Government Revenue	24.4	24.1	23.1	22.5	22.4
Gen. Gov. Total Expenditure	28.9	27.0	25.9	26.6	29.0
Gen. Gov. Net Lending/Borrowing	-4.5	-2.8	-2.8	-4.2	-6.5
Gen. Gov. Gross Debt	24.6	29.7	32.1	34.4	40.0

Country Facts ²³⁷	
Population	8.1 million
GDP per capita	\$2,331
GDP per capita (PPP)	\$4,844
Unemployment	4.4%
Inflation (% change)	5.5%
HDI Ranking	120



Key Findings for Honduras

- Honduras, the second poorest country in Latin America, suffers from extraordinarily unequal distribution of income, as well as high under employment. Nearly half of its economic activity is directly tied to the United States, with exports to the United States accounting for 30% of GDP and remittances for another 20%.²³⁸
- Power and resources are increasingly being concentrated in the executive branch with weak legislative and judicial oversight, undermining the system of checks and balances.
- The Government of Honduras (GOHN) has displayed a commitment to improving tax collection, cutting expenditures, and attracting foreign investment.²³⁹ GOHN has made progress in decentralization efforts at central MDAs, particularly for budget planning and the transfer of resources. However, at the subnational level, municipal planning and transparency are still weak. Service delivery at the municipal level is generally poor.
- Lack of a multi-year budget planning framework and a cohesive PFM strategy causes gaps in planning and the achievement of longer term goals.
- Frequent budget modifications are often made without proper authorization. The public procurement system, Honducompras, is generally used as a publishing platform rather than a contracting platform (its intended use). The limited transparency in procurement processes remains a source of fund leakage.

²³⁶ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

²³⁷ Ibid. All values as of 2013.

²³⁸ USAID PFMRAF Stage I Rapid Appraisal for Honduras, 2012

²³⁹ Ibid.

- Bank reconciliations below the central level are mostly executed manually. There is a need to strengthen the FMIS Accounting Module.
- Internal audit units are unable to complete their audit plans and the implementation of audit findings is a lengthy and cumbersome process.
- The FMIS (SIAFI) does not have universal coverage of public entities. Because many decentralized institutions are not fully integrated into SIAFI, a portion of public expenditures is not accounted for in the consolidated accounts.
- There is a need to strengthen the DEI (Tax Collection)-SIAFI interface.

Country Summary across PFM Dimensions

PFM Governance – GOHN began major PFM governance reforms in 2010, particularly around budget formulation, procurement, and transparency. Although most of the PFM system is regulated by a modern legal framework, the system faces challenges in terms of consistent implementation at all levels, as well as in terms of transparency measures, particularly regarding internal controls and anti-corruption efforts. Currently, internal controls merely monitor operational aspects of budget execution. Moreover, the implementation of internal control systems is still at a nascent stage in some MDAs. Likewise, anticorruption efforts, including a new law, the establishment of a National Anti-Corruption Council, and trainings on anti-corruption subjects, have been taking place since 2011, but the country still has a long way to go before their impact is evident. PEFA evaluators found that significant progress had been made in monitoring public spending and fiscal risk, both centrally and at the decentralized and municipal levels, thanks to the accountability reporting structure. However, GOHN still struggled with maintaining liquidity, which impacted transfers from the central government to municipalities and decentralized entities. The decentralized governance and service delivery structure needs strengthening; although GOHN has enacted the “*Ley de Visión y Plan de Nación*,” which envisions the decentralization of 40% of public investments to subnational entities by 2038, actual implementation has not advanced greatly.²⁴⁰

Challenges

- Central government oversight and monitoring of financial management by decentralized entities and municipalities is weak. The collection and reporting of fiscal data is limited, and municipalities and decentralized institutions largely utilize their own IT systems. Although municipalities and decentralized institutions operate under an umbrella system with standardized rules for data exchange, it is difficult to monitor budget execution and fiscal risks. Further, transfer estimations from the central government to decentralized entities and municipalities are unreliable.
- The legal and institutional framework does not enforce or emphasize ethical behavior or the avoidance of waste, fraud, and abuse.
- At the national level, state monopolies are prevalent and at the core of many acknowledged corruption issues, though an increasingly active civil society and media are advocating for transparency.

Budget Planning and Execution – The regulatory framework for budget formulation and execution is clear, complete, and detailed. The executive branch formulates the national budget between May and September, with MDAs draft budgets submitted to MOF by the end of July. MOF presents the draft budget to Congress for approval by September. The Ministry of Planning (SEPLAN) provides leadership in policy and development issues, coordinates the participation of MDAs in the budget formulation process, and prioritizes investment and government spending in general. The annual budgets are classified

²⁴⁰ Ibid.

by expenditure, and are consistent with IMF's GFSM classifications. Congress does not actively oversee budget execution, relying instead on MOF and SEPLAN. MDAs register public expenditure related to budget execution through the FMIS (SIAFI); however, municipalities and decentralized entities are not fully integrated into SIAFI, making it difficult to monitor the execution of their budgets.

Challenges

- The multi-year budgeting framework has not been consistently executed. There have been issues with coordination between development plans, sectoral plans, and operating budget plans, limiting GOHN's ability to distribute public resources in a strategic manner. Budget preparation at most MDAs is not executed well.
- Congress does not receive enough information to make sound judgments and decisions about the national budget and budget projections for the coming years. Communication with subnational entities is still poor.
- Income generation is a challenging issue both at the national and subnational levels. Budget expenditures continue to grow at a faster rate than revenues. GOHN has not yet been able to properly balance available revenues against needs and priorities.
- The imbalance between revenue and expenditures has resulted in the late recording of transactions as well as re-allocations. This reduces the transparency of the budgetary process by undermining internal controls and delaying the recording of commitments. Furthermore, the inaccuracy of revenue forecasting makes it difficult to allocate resources strategically.
- Budget modifications are frequent and are often made without proper authorization. According to PEFA evaluators, deviations from the originally approved budget exceeded 5% in all three years examined.²⁴¹
- Municipalities do not provide complete or timely budget execution data to MOF.

Treasury Operations and Cash Management – The TSA has been in place since 2004.²⁴² Most public funds flow through the TSA, though some trust funds and reserve funds are outside of the system. The Treasury prepares a cash flow estimate based on the approved budget, with daily monitoring and monthly adjustments for actual flows. The budget law establishes that the commitment of funds be made through SIAFI; and SIAFI does not allow payments unless there are actual funds available. Arrears are estimated at 2% of expenditures, and Treasury has been making efforts to reduce this amount. The Tax Authority regulates national taxes. Tax management has improved since 2011. Further, the national taxpayer registry has been linked with the cash management and benefits registry in SIAFI, so that data must match in order for an individual to receive any funds from the government. Revenues are transferred to the Treasury on a daily basis. Public debt is managed by MOF using SIGADE, a database that is linked to SIAFI. There are monthly account reconciliations, and weekly, monthly, quarterly, and annual reports that are deemed comprehensive and of high quality.

Challenges

- Data on the stock of tax arrears is estimated on an ad hoc basis; it is not the result of reconciliation or a comprehensive methodology.²⁴³
- There are funds that are not managed through the TSA. Some trust funds, institutional “proprietary funds” and reserved funds are outside of the system, though PEFA evaluators state that the amounts do not represent a significant portion of the budget.²⁴⁴

²⁴¹ PEFA Assessment for Honduras, 2012

²⁴² USAID PFMRAF Stage I Rapid Appraisal for Honduras, 2012

²⁴³ PEFA Assessment for Honduras, 2012

Procurement – The National Procurement Law and its regulations provide the legal and institutional framework for GOHN’s public procurement process, however, implementation is weak. The National Procurement Office serves as the regulatory body with oversight over public purchasing. Procurement operations are decentralized to individual MDAs. It has been noted that local/subnational governments follow the procurement law more closely than the national government.²⁴⁵ SIAFI is partially linked to the procurement module, Honducompras.²⁴⁶ Honducompras was designed to be used as a transactional platform that verifies budget fund availability, but it is not fully operational and most procurement processes are done outside the system. GOHN mostly uses Honducompras to publish procurements, and not as a contracting platform. However, GOHN is currently in the process of improving the system, as well as strengthening its link to SIAFI. Government bidding processes are generally not standardized or published, reducing transparency. Although there are legal mechanisms for appeals, the public perception is that these legal mechanisms are ineffective.

Challenges

- In the 2011 PEFA report, Honduras received low scores for competitive and independent procurement procedures, but received high scores for public access to procurement information. MDAs often take advantage of an exception in the law (an “emergency” clause), whereby a purchase can be approved by the President of Honduras for budget institutions or by the respective Director of a public entity or sole-source contracting.²⁴⁷
- The limited transparency in procurement processes remains a source of fund leakage.

Accounting and Financial Reporting – All government funds are deposited in the TSA, with the exception of small amounts collected by specific agencies in the Education and Health sectors. All government bank accounts are reconciled monthly. SIAFI contains an accounting module which facilitates standardized financial statements across the entities that use it. SIAFI users are also required to use the TSA, providing controls on public expenditure. The IPSAS cash standard for reporting was adopted on January 1, 2011. GOHN planned to adopt IPSAS accrual accounting standards by January 2014, though the project is not yet completed. Budget classifications are compatible with GFSM and COFOG standards. These are also compatible with the government accounting standards used in SIAFI.

Challenges

- Because some public institutions are not fully integrated in SIAFI, a portion of public expenditure is not accounted for.
- Municipalities that use the subnational FMIS, SAMI, do not use the same accounting system used in SIAFI, therefore financial statements differ from those produced via SIAFI.

Internal and External Audit – All MDAs have an internal audit unit. The scope of the internal audit function is defined in the Framework for Public Sector Internal Audit, in accordance with the recommendations of the Institute of Internal Auditors (IIA) in its International Standards for the Professional Practice of Internal Audit.²⁴⁸ The *Tribunal Superior de Cuentas* (TSC) is the supreme audit institution. TSC has clear responsibilities, but limited human and financial resources to comply with its

²⁴⁴ Ibid.

²⁴⁵ USAID PFMRAF Stage I Rapid Appraisal for Honduras, 2012

²⁴⁶ <http://www.honducompras.gob.hn/>

²⁴⁷ USAID PFMRAF Stage I Rapid Appraisal for Honduras, 2012

²⁴⁸ PEFA Assessment for Honduras, 2012

mandate. The PEFA and OBI indicators show that the TSC audits only 35% of national funds. International audit standards require that the SAI audit at least 60-70% of the national budget.

Challenges

- External audits cover less than 50% of expenses by the government, which is substantially below TSC's mandate to oversee all budgetary entities. TSC is not able to complete all planned audits, and there is a lack of oversight at the municipal level.
- Congress gives minimal attention to TSC audit findings and recommendations. The prosecution of irregular audit findings is a lengthy and cumbersome process.²⁴⁹

Financial Management Information Systems – SIAFI is implemented in all central level public entities and in some decentralized entities. The system processes all budget execution activities from allocations to payments, integrating budget, accounting, and treasury. It is also linked with modules for public credit, investment, management of externally financed projects, and HR (SIARH). SIAFI covers the entire central government and some decentralized MDAs (4 or 5 institutions that comprise 80% of the budget for decentralized institutions). Decentralized institutions outside of SIAFI upload their data manually on a monthly basis. GOHN is planning an interface with the non-connected decentralized institutions in order to automatically upload data to SIAFI for better monitoring. Municipalities are not fully integrated in SIAFI. Approximately 80 of the 298 municipalities utilize SAMI, a system created in 2004 with IDB funding and technical assistance from USAID and the Spanish Foundation. However, not all modules are compatible with SIAFI, and GOHN requires both financial and technical assistance to harmonize the systems and extend SAMI to all municipalities.²⁵⁰

Challenges

- Training on the use of information systems is minimal at all government levels. Moreover, the internal structure of SIAFI is based on an outdated Oracle platform for which there is no technical support. There are no operational or technical manuals, so GOHN must rely on a limited number of individuals to fix issues, which has been very costly.²⁵¹
- Not all municipalities have the capability to accurately record and report revenue, which complicates their eligibility to receive additional transfers from the central budget. Despite intentions to extend coverage of SAMI to all municipalities, GOHN is faced with budget constraints and low financial and technical skills at the municipal level hindering full implementation.

Human Resources – The civil service law regulates the relationship between MDAs and their employees, but it applies only to certain central government entities, covering about 25% of public employees (it excludes the Legislative and Judicial branches, Health and Education, and contractors).²⁵² Currently the Integrated System for Human Resource Management (SIARH) central and some decentralized institutions. Although not all personnel and payroll records are directly linked to payment systems, any changes to payroll must be pre-approved and documented. Because salary payments must be processed through SIAFI, the system automatically verifies the payment amounts against information from the previous month. If there is a difference between the current month and the previous month, the MDA is asked to provide supporting documentation and must confirm the information. For all MDAs, regardless of whether they use SIARH, authority, information, and regulations applicable to changes in staff records are clearly defined, and controls are generally comprehensive.²⁵³

²⁴⁹ USAID PFMRAF Stage I Rapid Appraisal for Honduras, 2012

²⁵⁰ Ibid.

²⁵¹ Ibid.

²⁵² Ibid.

²⁵³ Ibid.

Challenges

- There is high turnover at various MDAs when there is a change in the administration, which can impact continuity of operations.
- According to WB, despite GOHN's intention to maintain a merit-based civil service system, it is highly politicized and based on patronage rather than technical competence. This has affected the quality of public service.

International Donor Activities

- GOHN and the UN are creating INAP (*Instituto Nacional de la Administración Pública*), a centralized civil service employee management office. The vision is that all public sector employees will have continuous training and incentives to apply for better positions within the government.
- In FY 2012, USAID supported twenty CSOs to monitor the performance of public institutions across sectors to gauge their adherence to legal mandates requiring transparency and accountability. These USAID-supported CSOs are achieving positive results as watchdogs of government institutions.
- WB and IDB are investing in strengthening PFM systems, including the upgrade of SIAFI.²⁵⁴
- WB projects in Honduras include Improving Public Sector Performance (P110050), which focuses on public expenditure, financial management and procurement, e-government, administrative and civil service reform, and managing for development results, and Building Trust in Public Institutions and Policies (P125269), which deals with public sector governance.

²⁵⁴ Ibid.

Annex VIII – Jamaica

Fiscal indicators (% of GDP) ²⁵⁵	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$12,125.00	\$13,231.00	\$24,434.00	\$14,795.00	\$14,343.00
General Government Revenue	27.5	26.8	25.6	25.8	27.5
Gen. Gov. Total Expenditure	38.6	33.2	32.0	29.9	28.0
Gen. Gov. Net Lending/Borrowing	-11.1	-6.3	-6.4	-4.1	-0.5
Gen. Gov. Gross Debt	141.4	143.2	141.6	146.1	142.7

Country Facts ²⁵⁶	
Population	2.8 million
GDP per capita	\$5,170
GDP per capita (PPP)	\$9,029
Unemployment	15.4%
Inflation (% change)	10.5%
HDI Ranking	85



Key Findings for Jamaica

- A 2013 WB report indicates that Jamaican Parliamentarians need PFM training. The report cited this as a critical element of capacity building among legislators and an important step to improving their oversight of PFM functions.^{257, 258} There is inconsistent implementation of national regulations, particularly at the subnational level.
- The internal control system is weak at the subnational level. Established rules and regulations are not followed in day-to-day practices.²⁵⁹ To respond to this gap in the PFM system, the Government of Jamaica (GOJ) has embarked on a large-scale local government reform program to build the institutional capacity of local authorities.
- In 2010, Jamaica established a Fiscal Responsibility Framework to improve fiscal discipline for both revenues and expenditures. Special attention was given to implementing effective controls of budget revenue totals and the management of fiscal risks.
- Budget comprehensiveness still has significant gaps; the extent of off-budget operations is not quantifiable and reliable data does not exist.^{260, 261}
- Each MDA maintains its own bank accounts in commercial banks.
- Financial reporting across all levels of government is not harmonized. Financial reporting is done through a variety of different systems/programs: FINMAN (GOJ's FMIS), off-the-shelf accounting

²⁵⁵ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

²⁵⁶ Ibid. All values as of 2013.

²⁵⁷ "World Bank Report: Jamaican Parliamentarians Need Training in Financial Management," The Gleaner, Sep 2013

²⁵⁸ Jamaica Parliamentary Oversight of Public Finances – An Institutional Review, WB, 2013

²⁵⁹ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

²⁶⁰ PEFA Assessment for Jamaica, 2013

²⁶¹ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

software, and Excel. As a result, financial reporting across MDAs is not consistent and important financial information is not accurately presented. Further, FINMAN cannot provide consolidated statements of government accounts annually.²⁶²

- GOJ uses 17 systems to manage its payroll. There is no singular mechanism in place to collect all personnel data and reconcile it with the MDA rosters and monthly payroll.²⁶³
- There is a lack of adherence to procurement regulations despite a sound regulatory framework and handbook. Particular issues of concern include acceptance of unsolicited proposals, direct contracting, and a lack of segregation of duties.

Country Summary across PFM Dimensions

PFM Governance – While GOJ has enjoyed significant progress in the development of its social, economic, and political institutions, significant gaps remain regarding fiscal discipline and the internal capacity to support accounting, financial reporting, and payroll processes. The narrow fiscal space and the significant debt service obligations under which PFM is executed have put considerable pressure on the PFM system; budgetary planning has become disjointed from budget execution, thus resulting in the lack of efficient service delivery and value for money, and the internal control system has not been sufficiently implemented to ensure the orderly execution of PFM processes.²⁶⁴ In 2012, GOJ focused on improving internal control systems with donor support. In 2014, GOJ adopted a fiscal consolidation program that requires strict adherence to fiscal rules and measures to curtail spending to prevent a major financial collapse in the country.

Challenges

- GOJ law enforcement institutions are weak and are not properly funded, and the internal capacity to execute PFM responsibilities is inadequate. The rule of law is considered deficient and not respected, as noted in the USAID Stage I Appraisal.
- Office of the Contractor General (OCG) reports highlighted significant gaps around procurement processes and systems and a general lack of segregation of duties in finance departments in line ministries.
- Although financial controls have been improved through internal audit reforms, the control environment is weakened by ineffective administrative sanctions and corrective measures to prevent or counter financial misconduct. Reports from internal audit, external audit, and the Contractor General still reveal recurrent weaknesses in the national internal control system posing serious risks to the efficient use of public funds.
- Government officials at all levels are not adequately trained in PFM concepts and operations. Parliament was identified as one of the government entities with the most significant gaps “unable to fulfill its constitutional role for oversight of public finances.”²⁶⁵ Major shortages of skilled PFM personnel across Government are being addressed through an integral training of trainers program. This program is still nascent and its success and sustainability are dependent on support from the highest levels of Government.

Budget Planning and Execution – The government’s fiscal year runs from April 1 to March 31. Until recently, GOJ followed a “rudimentary budget calendar” with the budget planning process beginning with

²⁶² PEFA Assessment for Jamaica, 2013

²⁶³ Ibid.

²⁶⁴ Country Strategy Paper and National Indicative Programme for the Period 2008-2013 – Jamaica, EC, 2008

²⁶⁵ Jamaica Parliamentary Oversight of Public Finances – An Institutional Review, WB, 2013

a macro-fiscal forecasting exercise between July and September, and ending in March with MOF submitting the draft budget to the Parliament. Because there was no well-defined budget calendar, no information was provided as to when detailed budget estimates should be prepared by MDAs and autonomous agencies. This process is now changing due to budget calendar reforms to allow for better budget preparation within line ministries. A review of MDA draft budgets entails numerous discussions, meetings, and negotiations between MOF and MDAs at different levels, which provides MDAs the opportunity to justify additional budget requests. Budget classification is broadly compatible with international standards, and recurrent and development expenditures are presented in a single framework. Budget execution is affected by poor revenue performance and the timing of budget support disbursements from development partners. Monthly cash rationing limits the predictability of fund availability for MDAs. GOJ has made a concerted effort to improve the transparency of its budgetary operations. The Access to Information Act allows the public to access information on key budget activities, although the quality of the information provided has been disputed. The budget and policy briefs are all listed on MOF's website and the release of the annual budget is broadcast on national television.²⁶⁶

Challenges

- During the budget preparation process, meaningful procurement plans are absent. The procurement plans submitted lack information and consistency, and most are not submitted and updated on the basis of the final estimates of revenues and expenditures.
- Historically, there have been variations between actual expenditures and originally approved budgets. The 2010 PEFA Assessment explains that this is the result of shifting budget priorities during the year, insufficient capacity to implement the budget, and unrealistic budgeting.
- There are high levels of discretionary spending and low transparency in how municipalities manage budget execution, budget modifications, and reductions in appropriations.²⁶⁷ There is no FMIS at the municipal level.

Treasury Operations and Cash Management – The draft 2013 PEFA Assessment noted that Jamaica is working to establish a TSA using commercial banks. The government closed 158 accounts in 2012, recouping J\$333,969 million (approximately \$3 million USD).²⁶⁸ Despite not being completed, the nascent TSA makes it more difficult for MDAs not to report expenditures, as all expenditures are included in bank statements. Full rollout of the TSA is scheduled for completion in the second half of 2014. MOF is in the process of implementing the Central Treasury Management System (CTMS) to allow the government to centralize its cash management function.²⁶⁹ The Interim CTMS is being implemented in phases, with each phase informing the definition and refinement of requirements for subsequent phases, and eventually, an integrated FMIS. Under execution of revenue results in limited cash availability and monthly cash releases that do not follow a cash flow plan. Thus, each month MDAs got through a time-consuming process of resource allocation causing delays in the deployment of resources.²⁷⁰ Debt is recorded and managed using a debt management system, CS-DRMS, which provides information on servicing and repayment of the principal for foreign debt and a portion of domestic debt. Information on domestic debt is complemented by the Bank of Jamaica's management of government treasury bills. Data on public debt are generally considered of high quality, with comprehensive reports produced quarterly and annually. Foreign debt records are complete, updated on a monthly basis and reconciled on a semi-

²⁶⁶ PEFA Assessment for Jamaica, 2013

²⁶⁷ Jamaica: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, IMF, 2010

²⁶⁸ PEFA Assessment for Jamaica, 2013

²⁶⁹ <http://www.mof.gov.jm/ctms>

²⁷⁰ PEFA Assessment for Jamaica, 2013

annual basis. Domestic public debt is also updated and reconciled on a monthly basis. But other non-guaranteed public debts incurred by MDAs and state-owned enterprises are either not adequately registered through a centralized database or not reported at all.²⁷¹

Challenges

- The commitment control system is inadequate, as it does not track orders and is not functional due to partial recording and cash availability constraints. The warrant system does not adhere to cash flow projections, causing cash availability issues and increasing the risk of arrears.
- Reporting from line ministries is consistently late, which in turn delays disbursements and causes significant delays throughout the system, including in the payment for goods and services.
- GOJ has not fully implemented the CTMS. The purchase order and contract management modules are not yet developed in the payment system and tracking of payables against performance is practically non-existent.
- The existing cash management system does not provide accurate balances or controls over total government expenditure. The calculation of cash and bank balances is a monthly exercise for MDAs, yet the system used does not allow the automated consolidation of bank balances; which is done manually.
- Domestic and international debt data in MOF and Bank of Jamaica databases are not adequately consolidated in CS-DRMS.

Procurement – Since 1983, GOJ has been working toward the comprehensive re-structuring and institutional strengthening of public sector procurement. The procurement of goods and services is regulated by the Financial Administration and Audit Act and the Contractor General Act which grants the Office of Contractor General the necessary powers and duties, and establishes the National Contracts Commission as the oversight arm. All vendor contracting with GOJ above the direct contracting threshold must be registered. The National Contracts Commission establishes the criteria for registration and classification of all vendors to ensure that only fully tax compliant, licensed companies that have not been debarred participate in public procurement. Public procurement procedures have been frequently revised, and were re-issued most recently in 2010. The procurement framework has improved, by making open tenders the default procurement method; however, direct contracting and limited contracting are used in the majority of cases. According to the 2013 PEFA Assessment, 86% of contracts were awarded using methods other than open tender in 2012. In late 2013, IDB approved the use of Jamaica’s public procurement system.²⁷²

Challenges

- The Procurement Law allows for the acceptance of unsolicited proposals in certain circumstances, which is used regularly. Under this exception, entities may receive an unsolicited proposal and may consider it if it; (a) demonstrates a unique and innovative concept, or demonstrates a unique capability of the contractor; (b) offers a concept or service not otherwise available to the Government; and (c) does not resemble the substance of a recent, current, or pending competitive tender. This may stifle competition and increase the risk of collusion and unnecessary government spending.
- Although public entities are required to publish procurement plans, most fail to comply.
- The sanctioning process for breach of procurement rules is weak and not consistently enforced. The maximum fine for transgressors is J\$1000 (US\$12) or a maximum of 3 months jail sentence where

²⁷¹ Ibid.

²⁷² “IDB approves use of Jamaica’s Procurement System,” The Gleaner, Nov 2013

prosecution is pursued by the Director of Public Prosecution. Of 40 referrals made in a Special Report presented to a Parliamentary Joint Select Committee, no prosecution resulted.²⁷³

Accounting and Financial Reporting – Central level entities currently utilize a modified cash accounting system, but the national standards, which are regulated by MOF’s Public Expenditure Policy Coordination Division rather than the Accountant General, are not fully compatible with IPSAS.^{274,275} The routine accounting of Government transactions is not fully captured in FINMAN and, as a result, financial reporting continues to be problematic. GOJ is implementing an accounting reform process aimed at migrating to cash IPSAS first, then instituting a commitment-based budget accounting system, to then fully adopting accrual accounting standards in the long-term. Financial management procedures and regulations at the central government level are based on the Finance Administration and Audit Act. The Auditor General has urged the Accountant General to describe the national standards used in the annual financial statements, which do not provide specific information about the basis for calculating the change in the value of net assets from one year to the next.

Challenges

- Annual consolidated government accounts are not consistently prepared. While the Financial Administration and Audit Act specifies a four-month deadline for the submission of Appropriations Accounts to the Auditor General, most submit within 10 months and it takes some MDAs over 12 months to submit their Appropriations Accounts after the end of the fiscal year.
- Financial reporting throughout all levels of GOJ is not harmonized. Instead, it is executed through a variety of products: FINMAN, off-the-shelf accounting software, and Excel. As a result, financial reporting is not consistent, and important financial information is not accurately presented.
- Subnational governments must provide annual and monthly budget execution reports to the Ministry of Local Government to account for transfers from the central government, but these reports are not consolidated. The Auditor General is required by law to audit the parishes’ financial statements; however, the classification and accounting standards used by parishes are not consistent with the standards of the central government.

Internal and External Audit – In Jamaica, the internal audit system is comprised of internal audit units and audit committees in each MDA and an Audit Commission (which in 2009 was reformed to become a statutory body), of which the Internal Audit Unit is the secretariat. The internal audit units report to the audit committees, composed of 7 members (2/3 external to the ministry including from the private sector and other ministries, 1/3 internal), which review the work and management responses and recommend corrective actions. The Internal Audit Directorate provides guidance and oversight to the internal audit units and controls the quality of their activities. It also provides training to internal audit units to facilitate adherence to international standards. In addition to the internal audit system, which serves as a management tool to improve the quality of financial management and the robustness of internal controls, the Public Accountability Inspectorate is responsible for following up on audits, investigating issues, and reporting on performance.

The Auditor General is the SAI, and by law it is independent from the Executive. All central government entities and a sample of agencies and public bodies are audited annually. A full range of audit is performed, including certification, compliance (risk-based), performance, IT, and special audits. Procedures and templates follow INTOSAI standards. Despite significant delays with the timely submission of MDAs’ financial reports to the Auditor General, the 2013 PEFA indicates that external

²⁷³ PEFA Assessment for Jamaica, 2013

²⁷⁴ Ibid.

²⁷⁵ USAID PFMRAF Stage I Rapid Appraisal for Jamaica, 2012

audit reports are consistently submitted to the Parliament in a timely manner. The Auditor General has reported incidents with follow-up on financial and compliance issues; however, MOF has not succeeded in taking a systemic approach to addressing the recurrent weaknesses in the PFM system.²⁷⁶

Challenges

- There are concerns with the robustness and effectiveness of the control system, as the internal audit function throughout various levels of government is weak, reports are not thoroughly considered, and recommendations are not implemented. The focus on systemic issues has increased, although internal audits still focus on tackling compliance and verification issues rather than system-wide recommendations.
- The internal audit units within MDAs lack capacity, appropriate technical skills, and budgetary resources, preventing them from completing planned activities. Some MDAs do not have a formal Audit Committee which would normally be responsible for the oversight of internal controls.
- The Public Accountability Inspectorate was established by circular and is not backed by a legal instrument.
- The Auditor General's performance is affected by delays in the submission of the financial statements. This limits the level of information available to Parliament on financial management and execution of the budget for the previous fiscal year.

Financial Management Information Systems – The development of a FMIS began in 1991, with the objective of promoting accountability, transparency, and efficiency in PFM at the central level.²⁷⁷ Over the past five years, GOJ has rolled out FINMAN, its financial tool originally designed for accounting and commitment controls. FINMAN is a proprietary software developed and delivered by an external company and managed by the Fiscal Services Ltd., a government owned enterprise. GOJ utilizes other IT systems for various other functions, though integration is limited. Payroll is also managed through various systems, and none are linked to the establishment database or the nominal rolls. Financial reporting is facilitated through a variety of products depending on the entity, including FINMAN, off-the-shelf accounting software packages, and Excel.²⁷⁸

Challenges

- Financial reporting is not consistent across MDAs. Off-the-shelf accounting packages and Excel are used across various levels of government, in addition to FINMAN, affecting the quality of information. FINMAN is not able to produce adequate records and information in a standardized fashion. To address this issue, GOJ is planning to upgrade FINMAN and migrate to an integrated system in order to meet the increased financial recording and reporting needs and improve fiscal transparency.²⁷⁹ FINMAN does not manage or monitor cash management, procurement, asset management, or other PFM processes.
- FINMAN is not designed to produce consolidated financial statements, and the Government accounting system is not able to integrate the various ledgers and processes necessary to provide timely and comprehensive information on the Government's fiscal position.
- There is a lack of capacity to implement FINMAN at the subnational level. There have been instances of late or poor quality financial reporting from lower levels of government.

²⁷⁶ PEFA Assessment for Jamaica, 2013

²⁷⁷ Synopses of Ten Best Practices in the Jamaican Civil Service Reforms, UNDP, 1999

²⁷⁸ PEFA Assessment for Jamaica, 2013

²⁷⁹ Ibid.

- FINMAN is not able to reconcile transactions between MOF and the Central Bank automatically, and this process must be performed manually on a monthly basis.
- Not all commitments are recorded in FINMAN.

Human Resources – The HR management system in Jamaica is fragmented and employee registration and payroll are not monitored or centralized across sectors, MDAs, or levels of government. There is no centralized system and no capacity for automation in critical HR processes, such as controls on transfers, termination, or changes to payroll and classification. These are all done manually. This remains a significant area of risk for the country’s PFM system. There is an establishment list of allowed positions which is updated regularly. However, this list is not integrated with payroll and there is no system in place to collect data on existing and needed personnel.²⁸⁰

Challenges

- GOJ uses 17 systems to manage public payroll. In such a fragmented system, there is no singular mechanism in place to collect all personnel data and to reconcile them with the MDA rosters and monthly payroll.²⁸¹
- MDAs hire a significant volume of temporary contractors rather than long-term employees. This may indicate that there is a disconnect between HR management and payroll controls, and that MDAs are seeking to hire more employees than allowed by the establishment list.
- Payroll information is not consistently updated or reconciled to current MDA rosters. This increases the risk of ghost employees and an overall breakdown in payroll controls.
- The current payroll audits are not effective control tools and internal audit units do not adequately audit the payroll in many ministries. The Auditor General audits the payroll and reports overpayments, advances, and payments to terminated employees, but there has not yet been an IT audit of payroll systems across a sample of ministries and public bodies.

International Donor Activities

- USAID supports PRIDE Jamaica, an Economic Growth Assistance program focused on the establishment of an improved business enabling environment, including strengthening the tax administration system.²⁸² Under the Strengthening PFM in LAC Program, USAID is conducting an integral PFM training of trainers program in Jamaica to enable the creation of a PFM training program on a structured and continued basis. This will allow the gradual elimination of shortages in PFM staff and enable GOJ to improve the efficiency of public service delivery. In 2014 USAID supported IPSAS and Chart of Accounts (COA) trainings for MOF personnel.
- EU offers macroeconomic support, specifically technical support for the MTEF. They also have a program aimed at strengthening PFM governance and the implementation of responsible government institutions.²⁸³
- The 2013 IDB Country Strategy for Jamaica indicates that there are still residual effects of the world economic downturn in Jamaica. IDB supports authorities in mitigating the challenging economic and fiscal situation, while simultaneously protecting the poor and vulnerable.²⁸⁴ Despite ongoing challenges in the procurement system, in late 2013, IDB approved the use of Jamaica’s public

²⁸⁰ Ibid.

²⁸¹ Ibid.

²⁸² <http://www.pridejamaica.com/>

²⁸³ http://eeas.europa.eu/jamaica/index_en.htm

²⁸⁴ Country Strategy: Jamaica 2013-2014, IDB, 2013

procurement system (as well as the systems of seven other LAC countries) for bank-financed projects.^{285, 286}

- The UK Department for International Development (DFID) provides technical assistance to GOJ on the country's PFM reform action plan and debt management.²⁸⁷

²⁸⁵ "IDB approves use of Jamaica's Procurement System," The Gleaner, Nov 2013

²⁸⁶ "IDB approves the use of public procurement systems in eight Latin American and Caribbean countries," IDB press release, Nov 2013

²⁸⁷ <http://www.imf.org/external/np/seminars/eng/2013/caribbean/pdf/tessa-macarthur.pdf>

Annex IX – Paraguay



Fiscal indicators (% of GDP) ²⁸⁸	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$15,933.70	\$20,047.50	\$25,099.70	\$24,595.30	\$28,876.50
General Government Revenue	20.7	20.0	20.4	22.4	22.1
Gen. Gov. Total Expenditure	20.3	18.6	19.9	23.6	23.6
Gen. Gov. Net Lending/Borrowing	0.5	1.4	0.5	-1.2	-1.5
Gen. Gov. Gross Debt	18.0	15.2	12.4	11.6	12.8

Country Facts ²⁸⁹	
Population	6.8 million
GDP per capita	\$4,499
GDP per capita (PPP)	\$6,758
Unemployment	5.4%
Inflation (% change)	4.2%
HDI Ranking	111



Key Findings for Paraguay

- The Government of Paraguay’s (GOP) PFM legal framework is well organized and provides a clear and comprehensive legal base for financial management.²⁹⁰ However, there are still significant challenges with the consistent implementation of the legal framework.
- There is no legal framework in place to guarantee public access to information, although MOF does publish annual, quarterly, and monthly budget execution figures. However, the accuracy of the published data has been criticized by IMF and WB.
- Municipalities are identified by USAID, WB, and IDB as the most challenging public institutions to work with, particularly in more remote locations with limited internet access.
- GOP has a historical record of under-execution of the budget which is attributed to the lack of procurement planning and a lack of capacity for implementation.
- GOP’s TSA is still not completely implemented. More than 180 government accounts still exist and SIAF, the FMIS, does not “support a TSA,” as observed by the USAID Stage I PFMRAF Rapid Appraisal. A module was designed to integrate TSA into SIAF, but it was not implemented. The implementation lacked key support from the government.
- There is weak oversight and monitoring in the public procurement system, including contract selection and award, as well as contract management and closeout. Recent studies indicate that domestic firms that have been awarded public contracts often do not deliver what was promised in the original contract, and the procuring agency does not follow up adequately.

²⁸⁸ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

²⁸⁹ Ibid. All values as of 2013.

²⁹⁰ PEFA Assessment for Paraguay, 2011

- SIAF has not been rolled out to any subnational entities and is currently only used by central level ministries and agencies.

Country Summary across PFM Dimensions

PFM Governance – Since 2001, Paraguay has undergone significant PFM reform in the areas of decentralization, FMIS implementation, the public procurement legal framework, and tax and customs administration. MOF designed and implemented the decentralized automated integrated financial system (SIAF), moving away from a manual system in 2001. SIAF is now well-established and used by almost all public institutions. In 2003, the public procurement law was passed and is now considered a model for the rest of the region. Progress continued in 2004 with important tax and customs reforms and improvement to the budget process. In 2008, many reforms were designed and implemented in both the private and public sectors. A recurring observation of the USAID Stage I Rapid Appraisal team was the extent of reform that GOP has achieved, albeit ongoing, in a relatively short amount of time in terms of anti-corruption, transparency, civil service, and other reforms to address the inequalities and inefficiencies of the public sector.²⁹¹

Challenges

- Public institutions are generally still weak, the informal economy is large, and there is a significant history of corruption and impunity. GOP usually rebuts accusations of corruption by saying that it is a perception problem.²⁹²
- Unlike its peers in the region, Paraguay has no public access to information law; however, some financial and budgetary information is available to the public through MOF’s website, and other public offices provide key reports and documents on their websites.
- There is little follow-up on instances of non-compliance with the PFM legal and regulatory framework. The Comptroller General cannot impose sanctions, and there are no regulations defining a code of penalties for irregularities associated with the management of public resources.

Budget Planning and Execution – The key institution for budget planning and execution in Paraguay is MOF. The Secretary of Financial Management is responsible for administering the Treasury and its payment system, the formulation and monitoring of the public budget, management, registration, and control of the public debt, and the administration of the pension system. When MOF prepares the budget, it solicits input from 84 ministries and agencies across different levels of government. These MDAs prepare individual draft budgets and annual procurement plans (PACs) to inform the budget preparation process; once the budget is approved, monthly cash plans establish expenditure limits throughout the fiscal year. Budget preparation begins on April 30 when MOF issues the Decree on budget guidelines for MDAs. MDAs submit their budget drafts by June 30, and Treasury consolidates and prepares the final budget, which is sent to Congress by September 1. Congress must approve the budget by December 20. The budget is executed via SIAF, which is comprised of a set of sub-systems with centralized and decentralized operations, including the Integrated System for Budget Programming (SIPP), the Integrated Treasury System (SITE), and the Integrated Accounting System (SICO).

²⁹¹ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

²⁹² “Cartes plays his cards,” The Economist, Dec 2013

Challenges

- The government has struggled to link economic and financial projections with key development needs despite the availability of a multi-year budget, a results-based annual budget, and two national strategies.²⁹³
- There is limited capacity to plan on a multi-year basis. Efforts, however, are underway to create a macro-fiscal unit with experts in macro-economic and fiscal modeling to prepare medium-term macro-economic and fiscal forecasts.²⁹⁴
- Findings in the PEFA Assessments indicate that revenues for two state-owned hydroelectric dams, Itaipú and Yacyreta, are not included in the national budget. There is a risk that revenues generated by the dams are not accounted for properly and that senior management may have discretionary powers in the allocation and execution of those funds.
- Budget documents that inform the budget preparation process provide no information on financial assets, do not make a clear distinction between existing and new budget programs, and do not include adequate estimates of the budgetary impact of all major revenue and expenditure measures or programs.
- GOP has limited institutional capacity and human capital to execute the budget, which is reflected in the systematic under-execution of the budget.²⁹⁵ Frequent adjustments to budget expenditures are made during budget execution, and sufficient justification and documentation are not always provided.
- There is a culture of “use it or lose it” for spending agencies. As a result, spending dramatically increases at the end of the fiscal year, even if funds are not used for their original purpose.
- There is conflicting information regarding the current state of expenditure arrears. MOF stated that it provides timely payments to vendors/contractors; however, the USAID Stage I PFMRAF Rapid Appraisal, the 2011 PEFA Assessment, and civil society organizations have observed consistent delays in contractors receiving payment.
- Budgeted expenditures are reported according to programs, economic classification, type of expenditure, function and purpose, source of financing, and entity. However, public investment is not disaggregated by function in the budget classification system, and frequent changes in the classification of programs make it difficult to make comparisons or track investments across fiscal periods.
- IDB estimates that congressional approval of external funds can take up to 500 days, and therefore can be a major roadblock to donors in engaging directly with Paraguay’s budgeting system.²⁹⁶

Treasury Operations and Cash Management – GOP’s financial and cash planning activities are coordinated by the General Directorate of Budget and Treasury. The cash plan is based on available cash resources, and programmed quarterly. By law, monthly expense quotas cannot exceed the approved budget allocations. Treasury exercises centralized control over cash balances through a series of accounts it holds in the Central Bank of Paraguay, which include: (i) two main accounts (one in guaraní and the other in U.S. dollars) and another 41 additional accounts for managing treasury resources; and (ii) 241 accounts for managing resources from public credit (domestic and external) and from institutional resources (collection of taxes, fees, grants, and others). MOF Resolution 305/09 restricted the opening of

²⁹³ PEFA Assessment for Paraguay, 2011

²⁹⁴ Ibid.

²⁹⁵ PEFA Assessment for Paraguay, 2008

²⁹⁶ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

new accounts, and Decree 5053/10 established general guidelines for the gradual implementation and operation of a TSA system.²⁹⁷

Challenges

- MOF has not fully implemented a TSA and has over 300 open government accounts. SIAF would not support a TSA.²⁹⁸
- Cash rationing is common, as MDAs receive less than the apportioned amount of resources.²⁹⁹ The 2011 PEFA highlights the frequent passage of budgets that include higher expenditure estimates than anticipated revenue estimates, which usually leads to the subsequent application of strict financial and cash management constraints.³⁰⁰
- Information on arrears from decentralized MDAs is not reliable. Data on the stock of arrears for these decentralized entities is available in aggregate terms only, with no information on the age profile of arrears'. The inability to fully track arrears that are not posted in SIAF may affect payment prioritization and sustained arrears levels from one fiscal year to the next.

Procurement – The General Directorate for Public Procurement (GDPP) is responsible for oversight and regulation of public acquisition in Paraguay. Procurement operations are decentralized through more than 1,000 procurement units, which are located in 307 entities from all three levels of government. GDPP generates its own resources, since 0.4% of the value of each contract is assigned to GDPP. Each government institution must prepare an annual procurement plan as part of the budget preparation process. It was observed that MDAs employ a baseline approach to preparing their annual procurement plans, where a specific year's plan is based the previous year's plan with an incremental increase. Act 3439/07 was designed to address regulatory gaps and low technical capacity, providing procurement staff with relevant training and creating a GDPP certification for procurement officials.

Challenges

- The e-procurement system (SICP) includes information on business opportunities but does not have transactional capabilities with links to the budget execution systems.
- The public procurement law favors domestic companies over foreign companies, which restricts international participation in the public procurement process and potentially limits competitive bidding and the quality of goods or services procured.
- The contract management process has weak controls and little monitoring and oversight in regards to payments, due dates, or verification of goods or services received. This can create delays in processing payments.³⁰¹ To mitigate these challenges, GDPP is in the initial stages of implementing a contract execution monitoring module.
- Monitoring of the receipt of goods and services is inconsistent. There is greater control and monitoring of the initial steps in the bidding process. During the delivery of goods and services, there is a breakdown in monitoring, which should be conducted by the procuring MDA.
- Procurement training and staff qualifications are lacking throughout MDAs at all levels of government. The majority of procurement unit staff does not have sufficient technical procurement knowledge. GDPP is in the process of developing a training and certification program.

²⁹⁷ “Decreto establece lineamientos para Cuenta Única de Tesoro,” Paraguayan MOF press release, Sep 2010

²⁹⁸ PEFA Assessment for Paraguay, 2011

²⁹⁹ Lapidó et al. “Accountability in Public Expenditures in Latin America and the Caribbean,” WB, 2009

³⁰⁰ PEFA Assessment for Paraguay, 2011

³⁰¹ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

- MDAs, especially at the subnational level, do not accurately and completely plan for their needs in annual procurement plans which may result in budget under-execution or procurement exceptions.

Accounting and Financial Reporting –The MOF Directorate General of Standards and Procedures establishes government accounting standards annually, and provides a manual to each MDA. The accounting guidelines only partially adhere to international standards for the public sector.³⁰² The Directorate General of Public Accounting is in charge of systems and procedures related to public accounting, consolidating annual financial reports from MDAs, overall reporting, and advising and supervising the institutional accounting units at MDAs. The Directorate consolidates records and status reports on budget execution based on information prepared by individual MDAs. The budgetary and accounting classifications are equivalent and use the same degree of disaggregation.

Challenges

- SICO, the Integrated Accounting System, only covers 22 of 23 central entities and 45 of the 62 decentralized, public entities, thus creating a data gap.³⁰³
- MDAs across regions and government levels are responsible for annual financial reports on revenues, expenditures, and financial assets and liabilities, but there are significant gaps in meeting established standards.
- MOF included a goal for eventually aligning national accounting standards to IPSAS in its 2012-2015 Action Plan to Improve PFM.³⁰⁴ However, there has been no progress to adopt the standards since the document was published.

Internal and External Audit – The Auditor General of the Executive regulates, coordinates, and supervises internal audit units in all public sector entities. Since 2009, the use of the Unified Government Audit Manual has been mandatory for internal audit, but procedures have not been standardized across MDAs. Internal audit reports are reviewed by management in respective MDAs and by the Auditor General, but they are not sent to MOF or to the Comptroller General (CGO). CGO, the SAI, is a member of INTOSAI. External audits are conducted using Paraguay’s own auditing standards; however, the CGO is in the process of adopting international auditing standards. Since 2009, the practice of following up on audit recommendations was formally incorporated into the audit process. All audited entities have a 30 day deadline to submit an action plan to implement audit recommendations. The CGO Sector Analysis Unit collects the action plans and requires proof of implementation by the following year in order to avoid re-audits.

Challenges

- Due to understaffing and inadequate budget support, the CGO conducts audits with a three or four year delay. CGO audits covered 59%³⁰⁵ of total national budget expenditures in 2009 and 80% in 2012.³⁰⁶ Approximately 70% of municipalities are not audited.³⁰⁷ Audits performed are almost exclusively transactional verifications.
- Internal auditors within public institutions have limited independence since the minister of the respective institution can remove and replace the internal auditor at any time. Changes of internal auditors must be approved by the Attorney General, but the decision is not binding.

³⁰² PEFA Assessment for Paraguay, 2011

³⁰³ Ibid.

³⁰⁴ *Plan de Acción para la mejora de la Gestión de las Finanzas Publicas en Paraguay 2012-2015*, Paraguayan MOF, 2012

³⁰⁵ PEFA Assessment for Paraguay, 2011

³⁰⁶ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

³⁰⁷ Ibid.

- CGO does not have authority to criminally investigate, prosecute, or impose sanctions when it finds irregularities during audits. There are no regulations defining a code of penalties for irregularities associated with the management of public resources.

Financial Management Information Systems – The national FMIS system, SIAF, was rolled out by MOF in 2001 with extensive external support. SIAF is a well-established, integrated financial system that is used by almost all central level public institutions.³⁰⁸

The system, developed by IDB and WB, is comprised of a set of sub-systems with centralized and decentralized operations, including the Integrated System for Budget Programming (SIPP), the Integrated Treasury System (SITE), and the Integrated Accounting System (SICO).

Challenges

- SIAF coverage excludes various social security institutions, public enterprises, and financial institutions,³⁰⁹ which together accounted for 39% of the central government budget in 2011, as well as municipalities. These institutions use their own systems to execute and track expenditure, and then staff manually input data into SIAF. This may reduce the quality, transparency, and comprehensiveness of data in SIAF, as manually entered data may be inaccurate, incomplete, or delayed.
- The state resource management system (SIARE) and the system for the management of goods and services (SIABYS) are not integrated with SIAF.
- According to the USAID Stage I Rapid Appraisal, SIAF was not designed for integration with a TSA. To remedy this, a module has been designed to introduce a pilot TSA into SIAF. These plans have not yet been implemented, due to a lack of key stakeholder support within GOP. There are still more than 180 central government bank accounts open across MDAs.³¹⁰

Human Resources – In 2008, the Civil Service National Secretariat implemented a four-year strategic plan that included key areas of civil service development and improvement of staffing processes. The civil service remains highly vulnerable to politicization, even with the current reforms. There are efforts underway by the Civil Service National Secretariat to develop a web-based Integrated System for Administrative Career Oversight. The new system will include information about civil service employees (type of selection, gender, salary, etc.), and will classify positions under each operational unit. This system is expected to be linked to the government’s human resources management system (SINARH) which will enable the Secretariat to extract employee information.³¹¹

Challenges

- GOP recognizes the lack of consistent, uniformly skilled civil service staff.³¹²
- There is no standardized code of ethics for the civil service and public officials that advises against, and stipulates repercussions for, self-dealing and other conflicts of interest, as well as waste, fraud, and abuse. Certain units in the government have created codes of ethics, but many of these are inconsistent or too broad to provide actual guidance.
- There is a lack of clear and credible professional requirements for civil servants with financial management responsibilities.

³⁰⁸ Ibid.

³⁰⁹ There are five official financial institutions: National Development Bank, *Crédito Agrícola de Habilitación*, Livestock Fund, Ministry of Defense Loan Fund, and Financial Development Agency.

³¹⁰ USAID PFMRAF Stage I Rapid Appraisal for Paraguay, 2012

³¹¹ Ibid.

³¹² Ibid.

- There are over 1,300 different salary levels for government employees. However, there is no political will to standardize salary levels, since Congress is involved in setting specific new employees' salaries and positions when approving the budget.

International Donor Activities

- Recently, USAID/Paraguay has seen dramatic cuts to its resources, which resulted in smaller programs and fewer staff. Even with the reduction in resources, the Mission still foresees active Democracy and Governance and Economic Growth programs, with opportunities to implement activities through partner country systems.
- The U.S. Treasury Department's Office of Technical Assistance signed an agreement with Paraguay's Treasury in May 2014 to expand the TSA's functionalities and to improve cash management. A resident advisor from OTA will work full-time in Paraguay's Treasury for a full year with the possibility to extend the advisory by two or three years.³¹³
- IDB is the most dominant multilateral development bank in Paraguay. Approved projects since 2012 in PFM areas include a public management modernization program, a program for strengthening government control, support to the national public investment system, and support to management by results in the municipality of Asuncion, together totaling over \$100 million. In late 2013, IDB approved the use of Paraguay's public procurement system (as well as the systems of seven other LAC countries) for bank-financed projects.³¹⁴

³¹³ http://spanish.paraguay.usembassy.gov/pr_051214.html

³¹⁴ "IDB approves the use of public procurement systems in eight Latin American and Caribbean countries," IDB press release, Nov 2013

Annex X – Peru



Fiscal indicators (% of GDP) ³¹⁵	2009	2010	2011	2012	2013 ^a
Gross Domestic Product ^b	\$127,000.00	\$153,800.00	\$176,500.00	\$199,600.00	\$206,500.00
General Government Revenue	19.0	20.2	21.1	21.7	20.4
Gen. Gov. Total Expenditure	20.5	20.3	19.2	19.6	20.1
Gen. Gov. Net Lending/Borrowing	-1.5	-0.1	2.0	2.1	0.3
Gen. Gov. Gross Debt	27.1	24.4	22.3	20.5	18.6

Country Facts ³¹⁶	
Population	30.9 million
GDP per capita	\$6,797
GDP per capita (PPP)	\$11,149
Unemployment	6.0%
Inflation (% change)	2.9%
HDI Ranking	77



Key Findings for Peru

- Peru is a regional leader for PFM country systems and practices as recognized by IMF, WB, USAID, IDB and OECD. Peru has fewer “significant gaps” than those observed in the other focus countries.
- MOF has taken action to improve budget transparency since 2010. Budget transparency scores had been in decline prior to 2010. However, efforts taken by MOF to improve SIAF coverage and accessibility now allows public officials and citizens access to detailed information on budget execution for all levels of government.³¹⁷
- The TSA has been successfully implemented across all central level institutions. Treasury provides live updates of the Government of Peru’s (GOPE’s) fiscal position and sends daily reports to MOF.
- IMF, WB, and IDB reported that during the procurement process, the open tender regime is under-used. This has been identified as a risk that donor funds may be abused during the procurement process and subject to corruption.
- National accounting standards, which are consistent with IPSAS, are explicit, comprehensive, and implemented. National standards are applicable to all financial statements.
- The information in financial reports has been described as very high quality and reflective of GOPE’s actual fiscal position. Peru has comprehensive and timely financial statements supported by strong accounting standards.
- The National Public Budget Directorate (DNPP) has made progress in implementing its “Budget for Results” Strategy (PPR), which began in 2009 and focuses on optimizing the allocation of resources

³¹⁵ IMF World Economic Outlook, October 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40432>. a = estimate; b = in current USD.

³¹⁶ Ibid. All values as of 2013.

³¹⁷ Information provided by USAID/Peru, April 2014

to results. PPR is a different approach for GOPE and has the objective of apportioning, allocating, and executing public funds as determined by what would be best for the population, especially the poorest and most marginalized populations. Previously, there had been limited data collection systems concerning resources to service delivery units in any major sector at central and subnational levels.^{318, 319}

- The FMIS is implemented at the national and subnational levels. However, there are still smaller municipalities that face challenges in implementing FMIS.
- Reports have claimed that the qualifications of civil servants are extremely low and that productivity and innovation are poor. In July 2013, the Civil Service Law was approved with the objective of: (i) creating a meritocracy in public administration; (ii) improving civil servant salaries; and (iii) developing capabilities of personnel with continued performance evaluation and training.³²⁰

Country Summary across PFM Dimensions

PFM Governance – According to the 2009 PEFA, Peru’s PFM practices and systems align with many leading practices. They have a strong regulatory and legal PFM framework, and the PFM system relies on strong information systems linking budgeting, treasury, accounting, public investment, and procurement at both central and subnational levels. Equally positive, the 2010 IMF Article IV Report states that “Peru’s economic performance over the last decade has been outstanding by domestic and international standards.”³²¹ As suggested by a diverse range of assessments, compared to its cohort, there are relatively few major weaknesses; those weaknesses that remain have been identified and the appropriate corrective actions are either being designed or implemented.

Challenges

- One of the core country challenges, according to IDB, is the implementation of transparency policies. There are still obstacles to horizontal control, including oversight by other branches of government (e.g., the judiciary, the legislature, and the Comptroller General’s Office).³²²
- According to IDB, the quality and efficiency of the civil service is weak and productivity is low. Public perception regarding corruption levels continues to be an issue.³²³
- Despite reforms to modernize the public sector, the government’s institutional capacities at the subnational level continue to be limited and decentralization has not taken off to the extent that international donor agencies had hoped.

Budget Planning and Execution – DNPP, a unit within MOF, administers the National Budget and is responsible for the formulation, approval, execution, and assessment of the budget process for all public sector MDAs. Peru received high marks across budget planning and execution processes in various assessments,³²⁴ as reflected in the recurrent rating of “infrequent gaps” for the corresponding good practices in the body of this report. The Budget Law mandates that MOF publish the annual Multi-Annual Macroeconomic Framework, a macroeconomic forecast for the following three years (the year for which the budget is being prepared and the two subsequent years), as well as statistics for the previous year’s budget execution. The framework is subject to Congressional approval in May of each year. Based on the

³¹⁸ Information provided by USAID/Peru, April 2014

³¹⁹ Additional information on PPR can be found at: <http://www.servir.gob.pe/levserviciocivil/>

³²⁰ Information provided by USAID/Peru, April 2014

³²¹ Article IV Consultation – Peru, IMF, 2010

³²² Country Strategy with Peru 2007-2011, IDB, 2007

³²³ Country Strategy with Peru 2012-2016, IDB, 2012

³²⁴ Ibid.

Framework, MOF determines and notifies each MDA of its budget ceiling within the first five working days of June. Budget directives and circulars must be reviewed by MDAs and sectors, and MOF provides a schedule for budget meetings to negotiate draft MDA budgets in accordance with the budget ceilings. The budget draft is submitted to Congress by August 30. Congress has ninety calendar days to review, amend and approve the Bill, and return it to the executive branch no later than November 30 for enactment. The approved budget must be consistent with the assumptions and targets established in the macroeconomic framework. GOP will adopt a budget for results framework starting in 2015.

When the budget is approved, MOF produces monthly fund availability programs for operating purposes. DNPP approves a quarterly commitments calendar that is based on the institutional commitments forwarded by MDAs. It shows the monthly aggregate distribution allocated by sources of financing. The Commitments Calendar is published at the beginning of each month, indicating the level of execution for that month. In 2012, Peru joined the Open Government Initiative. As a part of this initiative, GOPE is working to reinforce web transparency portals of all public entities, and pursuing strategies to engage and inform citizens on budget execution and management of public funds.³²⁵

Challenges

- Peru received lower ratings by international organizations and donors in transparency and openness of the budget. The Open Budget Initiative found that budget transparency improved from 2006 to 2007, but declined from 2008 to 2012. This trend was noted at both the central and regional levels.³²⁶
- GOPE received criticism for limited CSO and public participation in the budgeting process. In response to these findings, public budget meetings are becoming more popular throughout the various regions, where citizens, CSOs, and government officials come together to decide where and how public funds should be allocated.
- The budget calendar is not strictly adhered to with regard to the development of subnational budgets. Subnational budget requests are not always submitted on time to central authorities and are not consistently prepared in accordance with instructions given in the budget circular.

Treasury Operations and Cash Management – The National Directorate of Public Treasury is tasked with allocating the government’s cash for expenditures in accordance with the approved budget, as well as with the programming and authorizing of payments and fund movements through its bank accounts, based on the government’s Cash Budget. Treasury is also the custodian of public treasury securities. The TSA is maintained and operated at *Banco de la Nación*, GOPE’s financial agent, and is supervised by Treasury. Treasury monitors the Public Treasury’s cash flow on a daily basis, using information provided by the *Banco de la Nación*’s³²⁷ Finance Manager; thus, Treasury determines its balances and evaluates the government’s ability to meet projected cash flows. Monthly cash projections are updated on an ongoing basis, and, when the transactions generate a surplus, the best option for investing the surplus is assessed. The National Directorate of Public Debt is responsible for public borrowing and other liability management operations, including debt service operations. Public debt is recorded in the Integrated Debt Management System (SIAD). SIAD is used to record both domestic and foreign public debt, and covers the debt of the national, regional, and local governments. Although SIAD is used to record, control, and monitor subnational debt, subnational governments report their debt through SIAF. There were no “significant gaps” identified in the corresponding good practices under this PFM dimension.

³²⁵ Information provided by USAID/Peru, April 2014

³²⁶ <http://internationalbudget.org/what-we-do/open-budget-survey/country-info/?country=pe>

³²⁷ *Banco de la Nación* represents the GOPE in financial transactions in both the public and private sectors, as well as at both domestic and international levels. It is a state institution, but it should not be confused with the Central Reserve Bank of Peru, the central bank which coins money.

Challenges

- The debt of public enterprises is currently managed through a special module developed in SIAF; this module will be superseded upon completion of a web-based system.³²⁸

Procurement – The main supervisory institution for public acquisition in Peru is the Supervisory Organism of State Purchasing. It is an independent agency, with administrative and financial autonomy, that sets procurement rules, handles higher value evaluation protests and contract administration complaints (for central and subnational governments), and provides ongoing procurement assistance to procuring entities. The Peruvian government implemented an electronic procurement system, SEACE, which regulates many different aspects of the Government’s procurement regime. One of the primary purposes of this electronic system, in addition to increasing transparency, is to increase private sector involvement in government sector acquisitions for goods and services. SEACE allows for information exchange as well as electronic transactions. Procurement regulations require all public entities to publish, in SÉANCE, information relating to their procurement processes in a timely manner, including: annual procurement plans, bid specifications, responses to inquiries and observations, modifications, tables of contract qualification and award, documents in response to challenges, and contracts.

Challenges

- Although involvement of the international business community in the competitive bidding process has continued to increase over the last two decades, largely due to various trade agreements, it is still limited.³²⁹
- GOPE received a low PEFA score of C on the indicator “Evidence of the use of open competition for award of contracts that exceeded the nationally established monetary threshold for small purchases,” which suggests that the public tendering process is not as competitive or transparent as good practices mandate.
- The control and evaluation of the procurement process is limited. Cases of inadequate procurement processes are increasing and limiting public investments.³³⁰
- IMF, WB, USAID, and IDB report that the open tendering process is under-used. This was identified as a risk for any donor-funds that are put through partner country systems, as discretionary decision-making and bypassing of controls may occur.

Accounting and Financial Reporting – The National Directorate of Public Accounting (DNCP) is responsible for issuing accounting and reporting rules and procedures. It develops and produces the National Financial Statements (*Cuenta General de la República*). Budget execution in Peru is cited as well documented; and the financial reporting is useful in helping non-government actors monitor budget implementation progress through the quarterly reports prepared by MOF. These reports are also sent to Congress and to the Office of the National Auditor General, as well as published online on the economic transparency website. National financial statements are prepared annually and submitted in a comprehensive document that contains information regarding revenues, expenditures, and financial assets and liabilities. Peru is further along than the remaining focus countries in IPSAS adoption, as IPSAS Standards 1-17 were implemented on January 1, 2004, and IPSAS Standards 18-21 were implemented on March 14, 2006.³³¹

³²⁸ PEFA Assessment for Peru, 2009

³²⁹ PEFA Assessment for Peru, 2009

³³⁰ Information provided by USAID/Peru, April 2014

³³¹ PEFA Assessment for Peru, 2009

Challenges

- The 2009 PEFA Assessment cites reporting on arrears as an area for improvement in Peru. The PEFA report cited that as of the end of 2007 there were no payment arrears, but no other data has been produced annually in accordance with routine procedures, which potentially leaves decision-makers without complete data on arrears for budget planning purposes.³³²
- Service providers, such as schools and primary health care centers, are not identified as individual execution units in the public budget; therefore, they do not have a budget allocated directly for their operation. The budget is prepared and executed on an aggregate basis for a group of education units or a network of primary health care facilities, and budgetary information is only available for this aggregate level.³³³

Internal and External Audit – Major reform efforts in internal and external audit functions have been underway for the past decade. The Auditor General’s Office (CGO) is Peru’s SAI and reports to Congress. CGO’s organizational structure was modeled after the U.S. Government Accountability Office. GOPE has focused on staffing and capacity building; the central office had 1,600 employees, as of 2009, and is up to 4,000 in 2013.³³⁴ External audit of the public sector financial statements is conducted annually. The audit covers revenues and expenditures of the central government, as well as financial assets and liabilities (debt). Approximately 75% of the central government’s total expenditure is subject to annual audit. Financial audits are conducted, which focus on processes and systems, such as Treasury, staff, procurement, budget, and accounting, among others. Performance audits are only occasionally conducted.³³⁵

Internal Control Offices (OCIs) are in charge of the ex-post internal control function in public entities. OCIs maintain a functional relationship with CGO, and work in conformity with the guidelines and policies established by CGO. OCIs act with technical independence within their area of responsibility. Currently, there are 190 OCIs that cover all central government entities, public enterprises, and 26 regional governments. Meanwhile, 195 provincial OCIs are responsible for conducting internal audit functions in decentralized entities, including municipal governments. This is insufficient to cover all of Peru’s 1,834 municipalities. However, CGO estimates that over 85% of total public expenditure is covered by regular internal audits.³³⁶

Challenges

- Despite continuous improvements in auditing practices, the internal audit function requires further improvement. Audit reports are only reviewed by the head of the entity and Comptroller General, but not MOF. Management at MDAs does not take timely action to address findings, and compliance with recommendations is lower still at decentralized entities.³³⁷
- CGO’s strategic plan, although comprehensive, may not be realistic given internal capacity limitations to execute the plan. However, the low capacity of the institution is addressed in the plan and targeted for improvement. There is a large number of public institutions and insufficient capacity to audit all entities; there are 18 ministries, 25 regional governments, and more than 1,800 municipalities.³³⁸

³³² PEFA Assessment for Peru, 2009

³³³ USAID PFMRAF Stage I Rapid Appraisal for Peru, 2010

³³⁴ Ibid.

³³⁵ PEFA Assessment for Peru, 2009

³³⁶ Ibid.

³³⁷ Ibid.

³³⁸ Information provided by USAID/Peru, April 2014

- The internal audit function has struggled to monitor control over salaries for internal auditors to ensure that they are paid by the Comptroller Office at the regional level and not by the subnational government level.³³⁹

Financial Management Information Systems – GOPE developed and implemented a public sector FMIS, SIAF-SP. In 1999, SIAF became the official system for recording expenditure and revenue operations. SIAF covers the financial activities of central government, autonomous agencies (universities and training centers), and all regional and local governments.

Challenges

- At the subnational level, there are still challenges in the recording and reporting of public debt in the SIAF-GL. Since launching SIAF, MOF has been in the process of developing more modern and integrated applications for the system, which would make it possible to maintain a more comprehensive record of subnational governments’ debt transactions, among other important changes that are expected.
- With IDB assistance, GOPE is in the process of upgrading to SIAF II, which will integrate additional modules in the system, with project completion expected in 2016.

Human Resources – HR, especially staffing, is one of the dimensions where the Peruvian government faces significant challenges. PEFA, IMF, IDB and USAID reports indicate that the quality of civil servants is markedly lower than countries of lower maturity levels in LAC. There is no civil service system in Peru, although all government employees are subject to a code of ethics and disclosure requirements. As part of a broader HR reform process, GOPE is implementing a module for HR management that incorporates centralized controls over payrolls and is creating a national civil service authority with responsibility for modernizing civil service management.

Challenges

- The consistent lack of qualified and stable civil service staff has been a major challenge in the execution of public resources. The USAID Stage I Rapid Appraisal observed the consistently poor quality of civil servants. Similarly, the 2009 PEFA Assessment cited low productivity and the low overall quality of civil servants in Peru.
- Discretionary powers of executive management in staffing decisions raise transparency concerns. Whether it is for promotion or a new hire position, the selection process is not consistently competitive or merit-based.³⁴⁰
- GOPE has not implemented effective payroll controls. The personnel database of civil servants is not fully centralized and each MDA uses its own database. The Personnel Office of each MDA manages the databases of personnel appointed and contracted under different labor regimes. This presents challenges in times of staffing changes and transfers across different MDAs.

International Donor Activities

- *Mesa de Finanzas Publicas* is a formal coordination group through which MOF coordinates with 16 donors and bilateral entities that support PFM reforms.³⁴¹

³³⁹ Ibid.

³⁴⁰ Country Strategy with Peru 2007-2011, IDB, 2007

³⁴¹ Ibid.

- The Peruvian Government has solicited support and technical advice from IMF to modernize the TSA to enable the full incorporation of all the budgetary resources and to facilitate improved TSA and FMIS integration.
- Pro-Descentralización (PRODES) is a four-year USAID/Peru program implemented to support the decentralization process. PRODES began in 2008 with the objective of supporting GOPE in strengthening and consolidating the decentralization process, as well as improving civic engagement with GOPE subnational government entities.³⁴²
- IDB is heading an ambitious program of technical assistance at MOF to strengthen the capacity of regional and local governments to identify, evaluate, and prioritize projects with high social and economic impact.³⁴³ The goal is to provide public officials in financial management units and OPIs with the capacity to perform their duties as established in SNIP norms and regulations, including the institutional and organizational adjustments to carry on with the functions adequately. In late 2013, IDB approved the use of Peru's public procurement system (as well as the systems of seven other LAC countries) for bank-financed projects.³⁴⁴

³⁴² <http://www.prodescentralizacion.org.pe/>

³⁴³ *Hacia un Modelo de Asistencia Técnica a Gobiernos Regionales en Gestión de Inversión Pública. Sistematización de Experiencias*, Peruvian MOF, 2011

³⁴⁴ "IDB approves the use of public procurement systems in eight Latin American and Caribbean countries," IDB press release, Nov 2013

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