PROJECT TO IMPROVE
THE FINANCIAL ACCOUNTS
OF THE
NON-FINANCIAL PUBLIC SECTOR

GOVERNMENT OF HONDURAS

FINAL REPORT

Project 522-0325: Policy Analysis and Implementation
Contract No 522-0325-C-00-1088-00

USAID/HONDURAS

Prepared by

Hjordis Bierman
Chief of Party

International Development and Finance, Inc.
Under subcontract with
Development Technologies, Inc.

Washington, D.C.
December, 1991
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<th>Abbreviation</th>
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<tr>
<td>AT</td>
<td>Technical Assistance Office, MHyCP</td>
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<td>BCH</td>
<td>Central Bank of Honduras</td>
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<td>CENI</td>
<td>National Information Center</td>
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<td>CGR</td>
<td>Office of the Accountant General</td>
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<td>DGCP</td>
<td>Department of Public Debt, MHyCP</td>
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<td>DGP</td>
<td>Department of the Budget, MHyCP</td>
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<tr>
<td>DGRAATM</td>
<td>Department for Advise and Technical Assistance to Municipalities, Ministry of Government</td>
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<td>ENP</td>
<td>National Port Authority</td>
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<td>HONDUTEL</td>
<td>Honduran Telephone Company</td>
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<td>ICMA</td>
<td>International Association for Municipal Administration</td>
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<td>MHyCP</td>
<td>Ministry of Finance and Public Credit</td>
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<td>RHUDO</td>
<td>Regional Housing and Urban Development Office</td>
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<td>SECPLAN</td>
<td>Planning</td>
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<td>SID</td>
<td>Superintendency of Decentralized Institutions, MHyCP</td>
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<td>TGR</td>
<td>National Treasury Department</td>
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PROLOGUE

This report represents the work done by a group of consultants from Development Technologies Inc. and International Development and Finance Inc. in Honduras during the period of February 14 - August 14, 1991. The project team consisted of Hjørdis Bierman (Team Leader; Fiscal and Financial Economist), Duke Banks III (Municipal Administration and Budgetry), Adrian Guissarri (Economist), Juan Moraga (Public Financial Accounting), Roy Mutillo Gale (Lawyer) and Paul Stroh (Public Financial Accounting).

A preliminary report summarizing this work was presented for comment to the authorities and the U.S.AID in Honduras on September 11, 1991. The government's comments on both the draft final report and numerous previous reports by individual consultants were received on November 14, 1991. We wish to thank the GOH for its effort in commenting on all the written work produced by the team.

The final report incorporates the comments on the draft, including the Government's reaction to the recommendations and the extent to which it has already or intends to implement the recommendations contained in the draft of the final report. The Government's written comments on the draft of the final report are reproduced as Annex 4 to the present report.

With regard to the comments on the individual reports, we had hoped to have had these before the individual consultants left Honduras. Given the nature of the final report, it was not possible to address many of the comments on individual reports at this late stage.

At the presentation of this final report, we would like to state our thanks for the support received during the project, especially from the personnel of STD, AT, DGP, DGCP and TGR of the Ministry of Finance and Public Credit, and of BCH and SECPLAN. We would like to express our special thanks to Mrs. Marlene Robles de Murillo, from SID, for her outstanding assistance in all aspects of this work.
I. INTRODUCTION

This paper integrates the reports of individual consultants on work carried out in the project to improve the public sector’s financial information system for the Government of Honduras under The Policy Analysis and Implementation Project with USAID/Honduras (contract no. 522-0325-00-1088-00).\(^1\) The present report summarizes these reports, and provides an assessment of the status of the information system, recommendations for further improvements and a suggested workplan. Furthermore, the report includes the government’s reaction to the draft of the final report, including the extent to which it has already or intends to implement the recommendations.

The terms of reference for the present project include virtually all areas of the system which provides information on the performance of the nonfinancial public sector. They cover needed improvements in the institutional organization of the system; in the quality of the data base, and in the timeliness of the availability of these data; changes in the presentation of the data reflecting the operations of individual entities, segments of the nonfinancial public sector, and of the consolidated nonfinancial public sector; a reconciliation methodology for the accounts of the central government; a consolidation methodology for the nonfinancial public sector and its components; a macroeconomic reconciliation methodology, which reconciles the fiscal accounts with the monetary and external accounts; an analysis of the legal system, including changes needed to provide a consistent legal framework which will support the recommended information system; and training in classification, reconciliation, consolidation and fiscal analysis.

The organization of this report follows the stages of the information process.\(^2\) After an initial analysis of the work done in the area of the overall institutional organization of the system (Chapter II), the report traces the successive stages of the information system, explaining in each stage the work done, the recommendations for improvement of the stage, and the status of the implementation of the recommendations (Chapters III–VIII). The starting point is the origination and production of the basic data provided by the source entities, and the analysis of these. The end point of the information system is the consolidation process and the analysis. Chapter IX presents the overall evaluation of work performed; the status of the information system for the

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\(^1\) For a list of these reports, see Annex 1.

\(^2\) Except for the work done on municipalities, which is a separate diagnostic study. See report on task no. 6, Duke Banks, August 1991.
public sector; recommendations to improve the system and a strategy for their implementation. Chapters X and XI contain a summary of the reaction of the Government to the draft of the final report, and the general conclusion.

In order to avoid confusion, it is useful to define the institutional public sector concepts to which the report is referring. Where not otherwise indicated, these concepts follow the internationally accepted institutional classification developed in the IMF’s "Manual on Government Finance Statistics." While some government offices in Honduras are working with the same concepts, it should be noted that the DGP’s Manual of budget Classifications contains different definitions, including for example the general government as part of the central government (in the IMF classification the reverse is true); excluding local governments from both central and general government (in the IMF classification they are part of general government); including decentralized entities as part of the central government, but outside the general government; and making no distinction between the financial and nonfinancial public sector, as the BCH is included as an industrial enterprise.

The use of terms in this report is according to the internationally accepted concepts, in line with the recommendations to change the institutional classifier put forward in task 1 subtasks 4 and 8.

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4 The proposed scheme follows that of the IMF. See, Juan Moraga "Analisis D: Propuesta para Modificar el clasificador Institucional del Gobierno de Honduras," April 1991. This report contains the proposed new scheme, including concrete examples of classification, for the approval of the Honduran authorities,. The report contained the recommendation that the classification scheme should be completed with a Honduran counterpart to be appointed. In the event, the proposed scheme was never approved, and while some additional work was done on it, it was not completed.
II. INSTITUTIONAL ORGANIZATION

The analysis of the institutional organization of the information system led to the assessment that the present system is characterized by a lack of organization; is overly complex, without responsibilities assigned to individual user units for producing and distributing the statistics they produce; is fragmented, and confusing, and leads to competition instead of cooperation among the user entities. Furthermore, this condition is aggravated by the weak data base and the lack of guidelines on the concepts and classification formats to be used in elaborating the financial accounts.5

The recommended organization is based on the assumption that the Ministry of Finance ought to collect, process and analyze information on the performance of both the central government and the decentralized entities;6 that there should be one office only authorized to publish the official financial accounts of the Central Government, and one authorized to publish the official accounts of the decentralized entities (Honduran definition), as long as the data base has not been significantly improved, and that the two offices should collaborate to produce the consolidated accounts of the public sector and an analysis thereof. At the very center of the information system is the Coordinator of the system, who should have close links to the macro economic management team, and should be appointed by the Minister of Finance. Statistics and analysis should be forwarded to the coordinator and to other users.

The recommended "authorized" user entities are AT (for the central government statistics) and SID (for the statistics on the decentralized entities). Once the data base has been improved and the CGR has been capacitated, the process of collection of data for financial information purposes should be moved to the CGR, with the analysis function remaining with AT and SID. At the same time, SID will continue its function of budget monitoring and control.

The institutional reorganization of the system, until the CGR can carry out its responsibilities on a more timely and effective basis, would necessitate temporary modification of some of the stipulations of Ley Organica de la Contaduria General de La Republica. The report on needed reforms of the legal system7

6 For the municipalities, the information sent to Gobernacion and SECPLAN should be processed and sent on to the Ministry of Finance for consolidation with the rest of the statistics on the nonfinancial public sector.
contains in Annex No. 2 a draft of the needed regulation to the Ley Organica de La Contaduria General de la Republica. This includes specification of the temporary functions of AT and SID, the temporary suspension of some functions of the CGR, and the definition of the functions of the Coordinator of the information system.

As indicated in the report on the institutional organization of the information system, a decision on this system by the Government of Honduras was necessary for the project team to carry out the remaining work effectively. Although the recommendation does not appear to have been implemented, the remainder of the work was carried out assuming that recommended system would eventually be implemented. Thus, much of the work on classification, reconciliation and consolidation was done with AT and SID, on the assumption that they would be the entities who would eventually produce the official financial accounts.
III. THE BASIC DATA

A. THE CENTRAL GOVERNMENT

The analysis of data produced in the central government included the information produced by the Office of the Accountant General (CGR), the Treasury (TGR), the Budget Office (DGP), the Public Debt office (DGCP) and representative individual ministries. Complementing this work, the financial statistics on central government operations were analyzed during the elaboration of a methodology for reconciling the central government's revenue and expenditure statistics with its financing, and with the monetary and external accounts.

According to the Law of the Office of the Accountant General, the Central Government's accounting system consists of a central, a budget, and a patrimonial accounting system. In practice, the latter has been limited to maintenance of an inventory of the government's fixed assets. Furthermore, the Office of the Accountant General is responsible for the central accounting system, as well as for the patrimonial system, for collecting the economic-financial statistics on central government operations (Honduran definition) on a monthly as well as annual basis, for presenting an integrated report on the financial situation of the total public sector (with balance sheet and detailed analysis) annually, by April 30, and for presenting monthly reports on the position of the central government as well as the consolidated public sector, all within time periods indicated in the Laws.

At present, the information system maintained by the Accountant General is inaccurate, and also so delayed that it is of little use for monitoring, control or policy purposes. This is mainly because the system in the Office of the Accountant General is fed by information from the DGP, DGCP and TGR, which is both inconsistent and severely delayed, and furthermore because virtually all the statistics of the CGR are elaborated manually, and consequently at a slow pace.

Analysis of Treasury operations yields similar results. The Treasury maintains an excessive number of revenue and expenditure accounts, mainly because each Treasurer opens new accounts, instead of reconciling the accounts of previous treasurers before

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8 See reports by Juan Moraga on task 1, subtasks 4, 8, and 9, April, 1991; report on task 1, subtasks 4, 7, 8 and 12, May 1991; and summary report by Paul Stroh and Juan Moraga on task 1, subtasks 4, 7, 8, 9 and 12, May 1991;

continuing to operate them. The treasury operations are not computerized, reconciliation of accounts is delayed, in some cases by over a year, and the Treasury does not maintain statistics in a form useful for the financial information system, such as expenditure on checks issued or checks cashed basis.

The Treasury does have one piece of statistics, (canceled payments orders) which was useful in converting the governments accounts to approximate cash basis, as done in the reconciliation exercise for October 1990. Nevertheless, this statistics on canceled payments orders must be available on a true calendar basis, in order to be useful for the fiscal information system. This is not the case at present, where some of the payments orders canceled within a given week, month or year is removed from the original statistics and charged to December of the previous year. This is done as part of the inadequate procedures followed in closing the budget year.

Only the budget accounting system and the debt statistics of the DGCP provide data within a timeframe which makes them useful for monitoring and evaluating fiscal performance. Nevertheless, as indicated above, delays in this statistics, particularly at the end of the budget year, are partly to blame for the breakdown of the central accounting system. It should be noted that the accounting systems of the individual ministries are replicas of the central budget accounting system, and thus do not provide information additional to that of the central budget system.

Furthermore, the information from the budget accounting system is of limited use for the above stated purposes, because they only cover part of the government’s expenditure (those legalized, not those effected), and financing (financing used, not received). With regard to the statistics of the DGCP, the information on disbursements of financing and on debt service payments differs from the cash disbursements and payments to the extent that such payments may be made before a payments order is issued.

Similarly, the statistics on legalized expenditure may vary widely from the actual expenditure, if recorded on either checks issued or checks cashed basis, because of time lags between the legalization of an expenditure (in the form of the issuance of a payments order), the signing of the check by the Treasurer, and the cashing of the check and its reflection in the Government’s accounts. The moment of registration may be suitable from a (legal) budget control point of view, but does not provide the data.

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10 See report on task no 1, subtask no. 5 and task no 4, H. Bierman, August 1991.
needed to compile the Government's actual expenditure statistics, on either commitments or cash basis.\textsuperscript{11}

Adding to the problems in using the present budget accounting statistics as the basis for the fiscal information system is the fact that, as in the case of financing and debt service, some expenditure is affected before it is legalized, and some expenditure appears to not go through the process of legalization and thus will not be captured in the budget accounting.\textsuperscript{12}

Mainly because of these characteristics, the statistical information on budget execution is not consistent with that provided with DGCP (on loan disbursements), AT and BCH (on expenditure), and other information on grants disbursements. It also appears that confining budget accounting to registration of expenditure for which a payments order has been issued severely limits the usefulness of the system in monitoring and controlling expenditure, when expenditure can take place prior to creation of a budgetary reserve or a payments order being issued.

A problem of a somewhat different nature, but which also gives rise to consistency problems in the financial information, is created by the delays in closing the budget year. This device allows the government to spend far into any calendar year, and allocate the expenditure to the budget year ending December 31 of the preceding year. The accounting practices which support this has made it virtually impossible to monitor government operations from "above the line" in any calendar period. The absence of above the line information on a commitments, payments due or cash basis for a given time period impedes the assessment of fiscal policy and its impact on the economy.

Normally, an assessment of the overall government deficit on a cash basis can at least be calculated from the financing information. However, in the present case, data on external financing (from DGCP or DGP) is available on a budget year basis only (i.e. not calendar year). Therefore, it is not possible to

\textsuperscript{11} It may be argued that the issuance of a payments order at least represents the official acceptance that the payment is due. If so, under the current system, part of the government's expenditure is paid before the official acceptance, i.e. by "retiros" del BCH.

\textsuperscript{12} Finally, delays in the processing and availability of data are the result of the application of outdated computer technologies in the DGPs computer department, such as batch entry and processing of data, based on computer system designed in 1979. During the present project, one member of the team was involved in the upgrading of the old design. However, the results of the application of the data base SUPRA were not demonstrated.
calculate the cash deficit for any given time period from below the line financing information.

In summary, it was found that the central government does not generate the basic data needed to elaborate the financial statistics, covering the operations of the government on either cash or accrual basis. Furthermore, it appears that the basic data generated by the budget accounting system is inadequate to effectively monitor budget performance. This is partly because of the operations which are effected sometimes long before they go thorough the "legalization process," so that the payments order becomes a formality. It also reflects the extended budget year and the amount of expenditure which is effected and legalized during this period.

However, as explained in more detail in the individual reports\(^{13}\) several offices attempt to issue statistics covering the operations, at least on a monthly and budget year basis. Because of the shortcomings of the present system in producing a set of accurate and consistent data, a number of adjustments are necessary to elaborate the financial statistics for the government, and even to calculate the budget outcome. Different perceptions of needed adjustments and classifications, reflecting conceptual differences, have resulted in different (and conflicting) statistics about the financial situation of the central government and the public sector.

Based on the above analyses there is a need to improve the basic data on central government operations to:

* capture all expenditure and financing transactions;
* register all expenditure (and accumulated expenditure) and debt servicing on commitments or payments due as well as on a cash basis within a given calendar period;
* register all financing and grants, whether spent or deposited in the Government's accounts;
* ensure consistent records (between departments and offices) of expenditure and financing flows.

This will result in government accounts which are both accurate and transparent, two basic objectives of government accounting systems, and which can be used more effectively for monitoring budget execution.

To achieve this, the following changes are recommended:

1. The budget should capture all revenue, expenditure and financing transactions.

\(^{13}\) See Report on task no 1, subtask no.2, H. Bierman, May 1991; and Report on task no 4, Adrian Guissarri, August 1991.
a. No payment should be made without a prior payments order. In case of such payments, there should be an obligation to regularize these, temporarily or definitively, from the accounting point within a time period measured in hours.

b. Debt service payments should be included in the budget, and a payments order issued (by the DGCP) sufficiently in advance of the due date to meet the payments obligation.

c. The BCH should be instructed to not debit the government accounts directly.

2. The budget year must be closed at December 31 every year. The analysis of the procedures followed for closing the budget year\(^{14}\) includes the specific measures which will make it possible to close the budget year on December 31. These include deadlines (November 30 for purchase orders and budgetary reserves, and December 15 for payments orders on TGR by the services) which must be kept without exception; provision for inclusion of compromisos and devengamientos del año anterior in the new budget; for registration of pending obligations from the previous budget year; and for payments order issued, but not yet paid at the end of December 31.\(^{15}\)

3. Procedures must be implemented to ensure that the statistics of the DGCP and that of the DGP is consistent. This can be done with or without linking the two systems, but once agreement has been reached on the appropriate concepts, which should be registered,\(^{16}\) linkage would be desirable.

4. The budget accounting system must be modified to produce data on expenditure on a commitments or payments due basis, in addition to the cash basis expenditure for which the TGR will be responsible, based on the data base provided by DGP.

5. The payments statistics should be completed by the TGR reporting on checks issued, and possibly checks cashed, with the latter information obtained from the Central Bank. For this, the TGR would only need a terminal

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\(^{14}\) Report on Task 1, subtask 8, Juan Moraga, August 1991.

\(^{15}\) For the detail of these recommended procedures, see report on task no.1, subtask no. 8, Juan Moraga, August 1991.

\(^{16}\) See report on task 4, H.Bierman, August 1991.
connected to CENI as well as adaptation of the existing software.

6. Once the statistics of DGP, DGCP and TGR is consistent and adequate, a reporting system should be implemented for this statistics to feed the system of the CGR.

7. In the short run, the CGR should focus on training of its personnel and computerization of some of its simpler operations. In the subsequent phase, the central accounting system should be computerized, fed from the system listed in 6. above. For this, it is necessary to develop a plan to computerize CGR, taking into account the desired objectives. This should include an implementation plan.

The reports on the accounting system submitted in the course of the present project also contain recommendations for an integrated accounting system, as defined below, which would include the central government, the decentralized entities, and the municipalities. The present report recommends that any decision on such a system be postponed for the present, and that efforts be concentrated on reestablishing a traditional government accounting system, which will satisfy the requirements for accurate, consistent and timely reporting of all government transactions. If sufficient interest has been generated in the integrated system to warrant it, the work program (in Chapter IX below) might include a special study of the advantages, the duration and the expected costs of such a system, which would be covering all the entities in the nonfinancial public sector. Such a study would be highly recommended, given the expected project duration and cost. The following paragraphs summarize the reasons for this recommendation.

The integrated accounting system is defined as an "accounting system which integrates the budget system with the patrimonial system. The budget imputations are converted into accounting registers by a double entry system in the latter, by means of the use of conversion tables." The quoted reports contain diagrammatic presentation of the completed system, discussion of subsystems, and respective in- and outputs.

The accounting system thus proposed would for the central government and the general government entities in structure be identical to that recommended for the nonfinancial public

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17 See summary report on task no.1 subtasks no. 4, 7, 8, 9 and 12, Paul Stroh and Juan Moraga, dated June 1991.

18 Ibid. p.3
enterprises, which is similar to that used by private enterprises. However, what distinguishes the general government entities from the public and private enterprises is that they are not operating as profit generating units. Therefore, they have traditionally not needed the complex accounting system of enterprises who have to report on operating position, profits etc. to their shareholders. This explains, for example, why governments have generally recorded transactions only on a cash basis, with the exception of expenditure, which is also recorded on commitments and/or payments due basis. However, registration of expenditure on this basis can be done in the budgetary accounts, as indicated above. Thus, most governments have a simple central accounting system fed by the budgetary, treasury and debt statistics.

In the case of Honduras, a traditional accounting system can be reestablished relatively easily, and the need for such a system to bring the public finances in order within the foreseeable future would argue for concentrating on this. The additional benefit to Honduras of the more complicated integrated system is estimated to be limited. Its establishment should therefore not be postponed in order to create a more sophisticated system, which in the best of circumstances would take years to implement, while meanwhile not even the basic accounting system would function.

It is on this basis that this report limits itself to the recommendation of the re-establishment of a functioning central accounting system, with a progressive linking or integration of the subsystems. It is not expected that the system can work well until a number of changes have been made, which will broaden the coverage

19 With respect to the municipalities, the results of the studies on the new municipal law (task 2) and on the municipalities (task 6) indicate that while they can be required to submit information on their operations, possibly even in a certain format, imposition of any accounting system would run counter to the new municipal law, and even more importantly, to the spirit of autonomy for the municipalities. Therefore, they could not be automatically included in an accounting scheme covering the total nonfinancial sector.

20 It is understood that this system was introduced in Bolivia as part of a large scale redesign of the monitoring, control and evaluation of public sector financial performance, which included in its early stages a change to performance type budgeting. Thus, the major benefit of the "private sector" type accounting system was that it could be used to evaluate the performance of programs and projects. Such budgeting is not at present undertaken in Honduras.
of the system, ensure consistency of the information supplied to the central accounting system, and improve the content of the information provided. Once this basic system is functioning, integration can proceed with computer linkages between DGP, DGCP, TGR and CGR. However, this would be a simply integrated system, without the added complication of the conversion to double entry bookkeeping accounts of the CGR.

In conclusion, the information system is in need of very basic improvements in the accounting system, in order to achieve the objectives of a traditional government accounting system, namely, accuracy (which implies consistency), transparency and timeliness. Before considering a highly sophisticated system, which would be in the implementation stage for years, the basic accounting system must be functioning satisfactorily.

B. DECENTRALIZED ENTITIES

The basic data of the decentralized entities reflect both problems in the budget formulation process and a lack of consistency between the various sources which report on their financial operations.

To identify the sources of problems in both the budget formulation and execution stage, the budget formulation process of 5 entities (ENP, ENEE, SANAA, HONDUTEL and IHSS) were examined, and the accounting and budgeting systems of these same entities were analyzed.

a. Budget formulation

With respect to the budget formulation, a major problem was found to be the constitutional requirement for two independent opinions ("dictamenes") on the budgets (from SECPLAN and MHyCP). This requirement generates two, generally different, dictamenes, both approved by the President of the Republic, and with no guideline as to which (or which parts) of each dictamen should be incorporated in the budget by the entity.

This problem is aggravated by the lack of guidelines on how a dictamen should be formed and formulated. This meant that it was difficult to explain what motivated the differences in dictamenes. Furthermore, there was no division of work between SECPLAN and MHyCP, with both opinions concentrating on analysis of the investment component, and with insufficient attention paid to the current component. This was found to be in part because of the lack of supporting analysis accompanying the budget proposals, and

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21 This is the Honduran term, which includes social security institutions and other entities in the general government, as well as the nonfinancial public enterprises.
in part because of the short deadlines under which the staff has to work under the present budget calendar in issuing the dictamenes. The latter also contributed to the lack of coordination between SECPLAN and MHyCP in the work on individual dictamenes.

Finally, differences in the budget numbers in the dictamenes often reflected conceptual and classification differences between SECPLAN and MHyCP in their treatment of the original budget numbers, which by themselves would be reflected in differences in recommended overall revenue, expenditure and deficit numbers, even if there were no differences in the recommended component magnitudes.22

Despite all of the work going into the preparation of the budgets and their presentation to the National Congress, for years most of the entities have not had these budgets approved or have had them approved with much delay. In many cases this has converted the budget preparation process to an academic exercise, although there has been some improvement in the last couple of years in the record of the Congress in passing the budgets. Ley General de Administracion Publica specifies (Article 73) that when the entity does not have an approved current budget, it must operate under the previous year’s (or the last approved) budget. This in turn creates obvious problems for the budget execution stage, as well as for monitoring and control.

The work of the project team in the area of budget preparation and approval involved: first, assistance to staff of SECPLAN and MHyCP, who reached agreement for the first time on one package of information for the budget preparation for 1992, which would satisfy both institutions’ needs for information during the budget preparation (for issuing their dictamenes) and for later monitoring budget execution. This package of information is to be submitted to both of the ministries by each entity with the budget proposal.

22 This is an important point, which is at the root of the problems created by conceptual and consequent classification differences. To understand this, an example will suffice. If investment in government bonds is treated as an expenditure by IHSS, that raises the overall expenditure level and the deficit at the same time as it raises the financing requirement of the IHSS. If instead it is treated as bond acquisitions below the line "negative financing," it does not change the deficit of the IHSS. It rather states that part of the assets of IHSS have been channeled to other uses (i.e. to financing the government’s deficit). Similar considerations apply to changes in time and other bank deposits and use of bank credit, which in one definition is considered an expenditure, and in another is not. These problems were discussed in the report on classification issues (task 1, subtasks 3 and 6).
Second, the identification of problem areas in the budget preparation process resulted in recommendations for changes in the process, including to establish the Ministry of Finance as the chief Ministry in the process, with the Minister as budget coordinator, in charge of issuing an annual budget preparation calendar. The proposed calendar will separate the initial consideration of investment project from the total budget, and will emphasize the investment area as the specialty of SECPLAN (or any other agency which will be put in charge of investment). The recommended calendar includes the MHyCPs overall consideration of the individual budgets, with possible later modifications to investment plans granted preliminary approval by SECPLAN; coordinating meetings between SECPLAN, MHyCP and the entities, and the eventual issuance of one opinion for each budget. The recommended calendar, subject to annual changes as decided by the Coordinator, is shown in Annex 2.

The above recommendations will require a modification of the Constitution, Article 266, with consistent modifications of Ley de Administracion Publica, Articles 70-72 to allow that only one opinion be issued. It should be noted, however, that although the Constitution does not explicitly state this, the proposed revision is in the spirit of the Constitution, which intended by the article a division of work as described. The budget coordinator’s authority to establish a budget preparation calendar is already contained in Article 10 of the Ley Organica del Presupuesto, as long as the budget coordinator represents MHyCP.

Third, in the budget approval process, a legal change is recommended to induce the Assembly to consider the budgets of the entities before the new budget year, and at the same time to ensure that the entities will at all times be operating under a budget designed and intended for that particular budget year. The latter would be the result of a modification to Ley General de Administración Publica, Art. 73. to state that unless the budget for an entity is approved by the end of a calendar year, the budget

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24 See, Roy Murillo "Reforma de Las Leyes Vinculadas con la Tarea 002," July 1991, p. 11. Accordingly, the intent of the Constitution was later explicitly stated in Ley General de la Administracion Publica, which however has been interpreted as conflicting with the provisions of the Constitution, insofar as it specified a division of work between MHyCP and SECPLAN in the elaboration of their respective opinions.

25 Ibid. p.20
introduced by the Secretariat responsible for the entity is automatically approved.

The above changes would significantly improve the content as well as the presentation of the budgets, and would ensure that all the decentralized entities would be working under a current budget. This would have a positive impact on the subsequent phase of execution, and would also simplify the monitoring and control of the budgets.

b. Budget Execution, Monitoring and Control

For budget control purposes the decentralized entities employ the budget accounts, under the authority of the budget division of each entity, while the accounting division produces the income and expenditure statements, the balance sheets and supporting tables. The lack of coordination between the two divisions, incomplete recording of transactions, and erroneous postings makes it difficult to monitor the budget execution because the budget accounts often are inconsistent with the accounts of the accounting division. This has led to ad hoc interpretations, consultations and corrections on the part of the monitoring agencies (SECPLAN, SID and BCH) which have resulted in differences in the quantitative assessment of financial performance as among the monitoring (or user) agencies.

With regard to the perception of financial performance held by officials of the entity itself, this perception will depend on which accounts are being used as a basis for the assessment, since the entity does generally not reconcile the various sources. With these inconsistencies, the value of monitoring budget execution diminishes to the extent that the inconsistencies in the accounts are possible reflections of mistakes or omissions in the budgetary accounts.

Although the problem of inconsistency is similar to that in the central government, it is more apparent in the case of the decentralized entities (at least to those who work with the statistics) because the latter produce the conflicting sources of information at about the same time, and generally these sources are submitted together to the monitoring or user entities, although with great delays. By comparison, the available statistical information for the Central government is too fragmented to facilitate the detection of inconsistencies, and the financial statements of the Accountant General are produced with such a delay that they are only of historic interest.

Examination of the accounting and budgeting manuals of the five decentralized entities listed above led to the conclusion that each entity has prepared an internal set of accounts for revenue and expenditure which may vary significantly from those established in the coding structure used by the central government. However,
they convert the accounts into the format required by MHyCP, some manually, others mechanically. In discussions with the staff of the entities, conducted in part in the seminar/workshop on accounting and classification methodology they indicated that they had no problems in undertaking this conversion. Accordingly, they did not see the inconsistency between the accounts submitted as resulting from problems in transforming the revenue and expenditure data into the required format. They thought instead that these difference arose because the accounting and budgeting departments may be registering different numbers; may be classifying the same transaction differently in their internal structure or may be omitting transactions; or may make mistakes which are reflected in inconsistencies within the accounts of a division. However, the experience of the recipients of the information is that in addition to these internal account problems, in many cases the entities do not convert the accounts appropriately to the format required by the MHyCP.

An improvement in the basic data provided by the decentralized entities would be achieved by explaining to the executives of the decentralized entities what basic information is needed for elaborating the consolidated accounts, and their responsibility to ensure the consistency between the budgetary and the central accounts; training of the accountants; improvement of the accounting systems, such as their extension to include in the central accounting systems all investment projects, including those of semiautonomous projects; and better coordination between the budget and accounting divisions, preferably in the form of integration of the systems. Such a system exists now in the ENP and HONDUTEL.

During the project a methodology was developed for integrating the central and budgetary accounts of SANAA, which could be applied to all the decentralized entities. In this methodology, SANAA’s

26 Seminar/workshop no. 3, July, 1991. A list of participants in the workshop and the outline of the workshop is contained in annex 3.

27 Such a seminar/workshop was given as workshop no. 1 in this project. However, despite the effort made, both by the counterpart in SID and by the COP to ensure high level participation (including a series of advance meetings to which managers of all the decentralized entities were invited, and invitations sent out by MHyCP, indicating that attendance at management level was required), a number of institutions sent lower level representatives. See, report on task no. 4, Adrian Guissarri, dated August, 1991). The list of participants to the seminar is shown in Annex 3 along with an outline of the seminar content.
classification by expenditure object is changed into a new classification, which permits linking it into an economic classification, which in a second step can be linked into the central (so-called patrimonial) accounting system of the entity. It should be noted that the implementation of the integration methodology is time consuming as has been evidenced in the case of ENP. It is estimated that its implementation in SANAA would take at least 2 years. However, if at least the 5 major decentralized entities could implement this scheme (SANAA, IHSS, and ENEE) in addition to ENP and HONDUTEL, who have the systems now, a major source of inconsistencies would be eliminated.

The recommended changes would clearly improve the basic data generated by the entities, but in addition would also provide mechanical transformation mechanisms to reach the economic classification of accounts necessary to construct the financial statistics. In elaborating the conversion technique, it is therefore extremely important that care be taken to ensure that the accounts are converted into the recommended economic classification system. Conversion of the internal budget accounts, as is now done in ENP and HONDUTEL, to correspond to the required classification for MHyCP, would at the same time permit the monitoring and control of budget execution with improved budget account data.

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28 For the detail of this methodology, see report on task no. 3, subtask b 2.

29 See report on task 1, subtasks 3 and 6, H. Bierman and Paul Stroh, June 1991.

30 According to this system, there are two steps in the conversion. In the first step, the internal central accounts (so-called patrimonial accounts) are converted to budget accounts, and in the second, the budget accounts are converted to the required format for reporting to MHyCP.
IV. TRANSFORMATION OF THE BASIC DATA.

Transformation of the basic data can be effected both in the units supplying the data and in the recipient or user units.

A. CENTRAL GOVERNMENT

The basic data of the Central Government are not adjusted by the supplying units (DGP, DGCP, TGR and BCH) to obtain consistency or to satisfy the reporting format required by the main user units, which have so far been DGP (for budget monitoring and control purposes) BCH, AT, and SECPLAN (with a recent change in the latter to SID). All adjustments take place within the individual user units. Because of the fragmentation of the data base, and the inconsistencies between various sources, the financial outturn, as recorded by each user unit, will depend on which sources it chooses, the adjustments it makes, and the conceptual framework for its presentation.

Significant progress was made in 1990 in regard to standardizing the methodology of the users, when the BCH and AT agreed on a joint methodology. AT is the authoritative source on the government's overall financial operations, while the information of the DGP provides the information on budget modifications and budget execution, strictly confined to expenditure on payments order basis, and with added information on payments made for which payments orders are still to be issued, and which accordingly are not registered as a budget expenditure.

Analysis of user methodology during the project resulted in the identification of the sources which should be used to establish the government's financial position as well as to register the execution of the budget, along with needed changes in the data provided by these sources to ensure proper reflection of the government's total operations, on either payments due or cash basis. This was done in the context of the establishment of a methodology for reconciling the government's revenue and expenditure data with its financing, and reconciling these data with the monetary and external account. Furthermore, a classification methodology for government operations was developed and recommended, based on deficit and financing concepts which facilitates the analysis of the macroeconomic impact of government operations. Both the reconciliation and the classification methodology was discussed with staff of AT, who understand both the rationale for the methodologies and the principles for their operation, and have decided to begin to apply the classification methodology. However, before the reconciliation methodology can be expected to work, and before AT can elaborate in a satisfactory way, the complete statistics covering the government's financial operations during any period, as a minimum, the following changes must be implemented.
* The Treasury must begin to keep track of payments orders canceled on a calendar period basis rather than, or in addition to, the budget year basis.

* The DGCP must register all external loan and grants disbursements as of their effective disbursement. This will call for procedures to receive information on all grants in DGCP (from SECPLAN and BCH), which at present only receives partial information, and also for the BCH to inform the DGCP immediately of loan disbursements.

* Similarly, all external debt service must be registered by the DGCP, at due date and at the effective payments date, whether or not payments orders have been issued. This will require the BCH to establish a system for same day communication to DGCP on payments made, and for DGCP to register these operations on a cash basis in addition to a payments order issued basis.

* With regard to the domestic debt system, the DGCP maintains the record of the total domestic debt of the government, but as the BCH manages the debt, the DGCP receives only very delayed information on the distribution of debt among domestic holders. Similarly, the DGCP is often not notified of domestic debt service payments until after payment has been effected by the BCH and debited the government’s accounts. The BCH will need to upgrade its management of the domestic debt, so that the information on debt holders at month end can be made available to the government within a period of two to three weeks. As a minimum, what is needed is banking system holdings and nonfinancial public sector holdings. Furthermore, as in the case of external debt service, the BCH must notify the DGCP on a same day basis of domestic debt service payments, and DGCP must register these on a cash basis, in addition to a payments order issued basis.

A number of other changes, including modifications to the budget statistics kept by DGP would greatly facilitate the reconciliation between the accounts kept by the DGP and those elaborated by AT. However, the above mentioned changes are absolutely necessary for AT to begin to compile a complete as well as accurate record of the government’s financial operations, which can also be reconciled with the monetary and external accounts.
Justification of the new classification scheme.

The recommended classification format follows largely that elaborated in the IMF's Manual on Government Finance Statistics\(^{31}\), with the modifications that grants are treated as a below the line item, and a number of memorandum items clarify changes in debt service arrears in the reporting period. While revenue is always treated on a cash basis, it would be useful to have expenditure on both a payments due and a cash (checks issued or checks paid) basis. However, the present accounting and information system permits only a mixed expenditure concept. With the recommended change in Treasury operations, an adjustment will be possible to a cash concept, which can then be matched with the financing.

The recommended classification system also involves important changes in the financing concepts, although this may not be immediately evident from a comparison of the traditional methodology in Honduras with the recommended classification. All the user entities have so far used the same gross concept of external funding, defined to include only external disbursements (of grants and loans) which have been used to finance expenditure. This concept excludes external disbursements lodged to the account of the Government in the BCH. Therefore, it does not match the capital inflow registered to the central government in the balance of payments.

Furthermore, because of the use of this external financing concept, the impact of the total inflow on the government's deposits, its net position with the banking system, and its consequences for net domestic credit expansion and the international reserve position is lost in the Government's accounts. These can therefore not be directly tied to the monetary accounts or to the external accounts. This leads to a great risk of misinterpreting the impact of the government's operations in the economy.

This point is important enough to warrant an example. Suppose that the government's deficit is L. 1,000 million in the new concept (which includes amortization as a negative financing item); external loan disbursements are L 800 million and amortization is L 300 million. However, only L 100 million is actually used for expenditure and reported as external financing according to the traditional methodology.

According to the new methodology the net external financing to government is L 500 million, and the residual domestic financing requirement is L 500 million. Out of this, moving to the monetary accounts, they indicate net credit expansion to the government of

L 400 million; additionally BCH statistics on nonbank financing to the government indicate a net increase in government bonds placed outside of the banking system of L 100 million. The sum of the different financing sources is thus equal to the deficit.

The financing through the monetary accounts can be linked directly to the government operations, because we have included external disbursements, not use of funds, in the external financing. By doing so, we have accounted for all the external funds, of which some have been partially for funding operations, while others have resulted in a reduction in not bank credit to government. In turn, this is reflected in the monetary accounts in an improvement in the net international reserve position relative to what the situation would have been, had only foreign financing spent by government been disbursed.

In the external accounts the movement in the international reserves reflects the combination of a small deterioration on the external current account (reflecting the impact of the spending by the government of a small part of the capital inflow to government) and the more significant improvement in the capital account, which is affected by the total capital inflow to government, even though part of this capital inflow was not spent.

According to the traditional methodology this important connection to both the monetary and the external accounts is lost. Thus, the residual domestic financing requirement in the example will be L 1,200 million (L 1000 - L 100 + L 300 million), but clearly this can not be broken out into net bank credit to government and other domestic financing. It could be broken into gross credit to government and other domestic financing, but gross credit is not a variable of macroeconomic consequence.

The net international reserves will in fact reflect the large external capital inflow in this year (year 1), while the fiscal accounts (in the traditional methodology) will show little use of external financing. In fact, in the following year, assuming that the government spends all the external funds disbursed in year 1, this will lead to a sharp credit expansion and a drawdown in net international reserves. However, the fiscal accounts will show a large use of external funds, instead of a drawdown of domestic deposits. Thus the fiscal accounts in this format can not be used to analyze the impact of fiscal operations on the monetary and external accounts.

AT has already begun to implement the new classification scheme for the Central Government’s operations. However, for the complete information on Central government operations to be available on a timely basis, AT will need to receive the new financing information, as detailed above, from the BCH and the DGCP.
The recommended classification format differs from that used for the program with the IMF for 1991 in two respects. First, the IMF program splits grants, of which some are treated as above the line inflows, with the majority treated as below the line financing. Secondly, debt service payments in the program with the IMF are to be recorded on an accrual, rather than on a cash basis. Adjustments in the debt service can be made in AT, given that the office already keeps records of accrued debt service and cash payments, as well as detailed records on arrears. With respect to the split in grants, additional information will be needed for purposes of monitoring the program. This should however be available to AT with the implementation of the recommendation to centralize information on grants disbursements in DGCP.

It should be noted that the elaboration of the governments overall financial operations will require much work in AT, even with the implementation of the above recommendations. A lessening of this work can only be expected once recommendations are implemented which reduce the fragmentation of information in the Central Government, most notably so that the budget reflects all operations on a payments due and a cash basis. Implementation of the recommendations will reduce the fragmentation of the information in the central government.

B. THE DECENTRALIZED ENTITIES

So far, the decentralized entities have supplied information for budget monitoring and control in the format required by MHyCP. Furthermore, for the assessment of overall financial operations each entity supplies budget liquidations and financial statements supported by a list of other primary information requested by the user entity.

Although the information is required to be provided quarterly, most entities supply this information only once a year, after the end of the budget year, and then only with great delay. This of course makes budget monitoring and control from the central government an almost futile exercise during the budget year. Furthermore, the central government knows little about the overall performance of the entities during the year, and only with great delay after the end of the budget year, so that the information is not very useful for policy purposes.

The analysis of the causes of the different opinions on the budget proposals rendered by SECPLAN and MHyCP, which was done in the course of the present project\(^{32}\) indicates that in addition to the problems in the data submitted by the decentralized entities, which were discussed above in Chapter III, Section B.a, the two

dictamenes reach different budget magnitudes because of conceptual differences, which are reflected in different classification of the budget proposals. In fact, because of these differences, only coincidentally will the budget deficit presented by the two entities be identical. Whether or not the two ministries continue to issue dictamenes, it was recommended that the budget classifications employed by the ministri(es) or office(s) should follow the economic classification scheme established in task 1, subtasks 3 and 6, and which is discussed in the corresponding report. It is recommended that the budget proposals be converted by the individual entities into this economic classification format before being submitted for dictamen. A similar recommendation is made with regard to the reporting on overall financial performance, which is now directed to SID.

Proper reporting on this basis, of course accompanied by the more detailed budget and central account information, will require the establishment of conversion schemes from the internal budget classifications of the entities to the economic classification, and preferably also linking the conversion to the central accounts of the enterprise, as done by example in task 3, subtask b.2. the subject of which is the integration of the budget and accounting systems in the decentralized entities. Furthermore, for the few entities who already have such conversion schemes in place, these will need to be checked, and modified if needed, to conform to the recommended economic classification.

The implementation of this economic classification scheme, by way of its linkage into the budget and accounting system of the entities is expected to be a medium term project, even if this integration is only limited to the 5 major entities. For the short term, it is therefore proposed that part of the staff of SID and CGR be trained in how to put together the financial accounts of the entities, check for consistency between the budget and the patrimonial accounting system, based on the source material available at each entity, and transform the accounts into the desired economic classification format.

For this purpose an initial short period of training is recommended, to explain the principles of the budget and accounting system, as well as their transformation. After this, technical assistance for on the job training is recommended for a period of 1 year, during which time the selected group of staff should collect and process the quarterly (and possibly later monthly) information of the entities assigned to them under close supervision and concrete guidance.
V. RECONCILIATION OF THE CENTRAL GOVERNMENT'S DEFICIT WITH ITS FINANCING AND WITH THE MONETARY AND EXTERNAL ACCOUNTS

A methodology was developed for reconciling the Central Government's revenue and expenditure with its financing, and in turn with the monetary and external accounts. The methodology identifies the sources which should be used, and the adjustments to be made at present, in order to calculate the deficit of the central government on an approximate cash basis (which is at present not used in Honduras) and match this deficit with its financing. The methodology is illustrated by way of an example, using the Central government accounts for the month of October 1990.

The cash deficit concept is necessary in order to reconcile it with the financing, which should always be recorded on a cash basis. The deficit, as defined in the recommended classification system, is financed by disbursements of external grants and loans less amortization, and domestic bank credit extension (less government deposits) plus the net increase in outstanding bonds and other domestically held debt instruments. The methodology thus defines each financing component, and identifies the specific source(s) to be used for calculating the financing component and the total.

Since domestic credit expansion to the Government is explicitly defined as a component part of the financing in this methodology, and since the definition coincides with that used in the monetary accounts, the deficit and its financing is directly linked to the monetary accounts. Similarly, the disbursements of grants and loans to government and of external amortization on a cash basis are identifiable flows in the balance of payments, and should be consistent with these flows. Domestic nonbank financing is also clearly identified.

In principle, these components of financing should add to the deficit, and the governments accounts of financing, when reclassified into these components, should coincide with the components and with the total financing registered in the monetary and external accounts and in the domestic debt registers. Thus, the methodology for checking the deficit with its financing, with the components of financing redefined and reclassified, provides at the same time a methodology for checking the consistency of the fiscal accounts with the monetary and external accounts.

Any discrepancy between the MHyCP record on net domestic credit to government with that of the BCH points to inconsistencies with the monetary accounts. Any discrepancy between the records of grant and loan inflows and amortization payments, as recorded for

33 See report on task 4, H. Bierman
balance of payments purposes and as recorded in MHyCP, points to inconsistencies between the fiscal and the external accounts, and discrepancies between BCH records of internal nonbank financing and that recorded by the MHyCP point to similar inconsistencies. When the causes of the discrepancies have been found and the accounts appropriately adjusted, (so that all of the financing components are consistent with the various macroeconomic accounts), the total financing may not add to the deficit. This is shown by a residual (unexplained) financing item, which may move from one period to another. This indicates either that the deficit is not strictly on a cash basis, or that one or more of the financing components are not being measured properly.

During the project, the staff of AT expressed great interest in developing the financial accounts of the central government on this basis, and they have already begun to collect the information on the needed basis. However, as mentioned above in section IV.1, a number of changes are necessary before the deficit of the government can be measured on a strict cash basis for any calendar period. Introduction of these changes should be top priority. Furthermore, AT needs to have access to the part of the domestic financing information which is registered by the BCH.
VI. THE MUNICIPALITIES

In the area of the fiscal information system for the municipalities, an analysis was made of the impact of the new Municipal Law on the financial reporting of the municipalities, both with respect to the format and the frequency of this reporting. Given the municipalities’ expressed interest and need for technical assistance in both accounting and budget matters, recommendations were made that the technical assistance given to the municipalities through USAID (see below) take into account the needs of the fiscal information system for information from the municipalities in the economic classification format elaborated in task 1, subtasks 3 and 6. Furthermore, recommendations were made for changes in the new municipal law to: 1) avoid the same problems as have been experienced by the decentralized entities when these have had to work based on previous year’s budgets; 2) to include specifically that the 6-monthly reports to SECPLAN should contain financial information about the budget execution; and 3) to give the municipalities more than 10 days to liquidate their budgets.

Up until the new municipal law of 1991, the 290 municipalities were under direct central government control. This meant both that their budgets were approved by the Central Government and that the budget execution was subject to central government monitoring and control. Therefore, the municipalities were required to submit their annual budgets for approval to DGAATM in Gobernación, and also to submit monthly information on budget execution to the same department. The formats for both the budget and reports on its execution were determined in Ministerio de Gobernación, and ill suited to either monitoring budget execution or overall performance. Furthermore, Gobernación did not appear to use the data received in any meaningful way. Thus, the data did not form part of the financial information system. In order to complete the accounts of the nonfinancial public sector, the user entities (BCH, SECPLAN and MHyCP) have used estimated data for the operations of the municipalities, with great variations between the estimates made by the different user entities.

With the new municipal law, the municipalities were allowed wide ranging autonomy. Thus, the budgets were no longer subject to approval, and neither was budget execution subject to control by the central government, as had been at least the principle until 1991. Furthermore, the form of budget and accounting system to be used by each municipality was left for it to decide. Nevertheless, the law requires certain financial information to be made available for each municipality, including the approved budget and the final liquidation of the budget (to be submitted to SECPLAN), and monthly, quarterly and 6 month reports (Articles 46, 47, 97 of Ley de municipalidades).
A number of the municipalities are now in the process of setting up their budget and accounting system. In this, as in a number of other matters, the 14 largest ones are receiving technical assistance from the International Association for Municipal Administration (ICMA) through USAID/RHUDO in Honduras over a period of 7 years. During the present project, from visits to the municipalities it was concluded that there is a widespread need for and interest in receiving technical assistance in these areas.

The report on municipalities recommends the establishment of a working group to design a financial information system for the municipalities, including the above budgets and reports. As to the format of these reports, given the principle of municipal autonomy, the report recommends that this issue should be left to the individual municipalities. Unless the municipalities decide to report in the same format, this leaves the receiving agency (DGAATM) to do the work of standardizing the various formats and classifying them according to the recommended economic classification. DGAATM is not equipped for this, and would need a strong program of technical assistance. This technical assistance should be given as soon as possible, in order to coordinate this work with that of ICMA on the Manual on Municipal Accounting. Even under this proposal, it is envisaged that the technical assistance provided by ICMA/RHUDO/AID will be geared to implementing accounting systems and classifications consistent with those recommended in the present project. To the extent this is achieved, this will reduce the workload of DGAATM in reclassifying the accounts.

Alternatively, as mentioned in the report about the municipalities, the latter could be required to report in the desired format, if it is judged that this does not impede their autonomy. As long as the classification format does not impose a constraint on the accounting systems which the municipalities may adopt, it would not appear that requiring the information in a certain format would be an infringement on their autonomy. This system would greatly reduce the workload and the need for technical assistance to the DGAATM in Gobernacion, but it would mean that the municipalities would need technical assistance. In any case, the need for technical assistance might be greatly diminished to the extent that the present manual on municipal accounting being developed by ICMA is (or can be made) consistent with the desired classification format for reporting. A second step in the ICMA/RHUDO technical assistance effort might include a conversion program from the accounting system recommended by ICMA to the classification system recommended in the present project.

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Finally, in the legal area there are two recommendations: First, to avoid the situation of a municipality having to work under previous years' budget, and the resulting problems which have been seen in case of the decentralized entities, a modification of the municipal law (Article 95) is recommended to state that in case where the budget is not approved before the end of December, the budget submitted by the Mayor will take effect. Second, that article 46 include the explanation that "informes de gestion" should include financial information on the budget execution. And third, in order to give the municipalities time to liquidate the budget, an extension of the deadline for submitting the liquidated budget to SECPLAN (from Jan. 10 to Jan 31., with copy of the final liquidation submitted by end February) is recommended.
VII. CONSOLIDATION OF THE NONFINANCIAL PUBLIC SECTOR

A methodology was also established for the consolidation of the nonfinancial public sector, employing the recommended concepts and corresponding classifications. The methodology was illustrated in the consolidation of the preliminary accounts of the nonfinancial public sector for 1990. The methodology was explained to one staff member from SID and one from AT. Few other staff members would have the background and experience to benefit from the explanation without first personally having tried to do the consolidation. As indicated below in Chapter IX, it is recommended that more staff in MHyCP (both in AT and SID) learn how to do the consolidation.

The consolidation process includes the collection of data from the sources; the evaluation and reconciliation of the information; reclassification where the source information does not follow the desired format; and finally the partial and global consolidation in the narrow sense of the word.

Since the evaluation and reconciliation of the information has been treated in other contexts, for purposes of the consolidation exercise for 1990, the data provided by AT and SID were accepted as the required data, although there were several problems with the data, which complicated both the consolidation process and the subsequent economic analysis, and at the same time limited the usefulness of the consolidation. Nevertheless, it was decided that the data could be used for establishing the principles of the consolidation process in the narrow sense. Thus, the emphasis was on reclassifying this information into the desired format, and carrying out the consolidation process. Consolidation was done for components of the general government, for the general government, for the nonfinancial public enterprises and finally for the nonfinancial public sector.

The problems which hampered the usefulness of the consolidation was 1) the lack of information as to the whether the deficit was on a cash or accrual basis, in particular whether debt service payments were indicated on a cash or payment due basis; and 2) the lack of financing information in the format described in the reconciliation process, or which could easily be converted into this format. Much more work will have to be done in both of these areas in order for the consolidation to be a useful tool of analysis.

Thus, assuming that the consolidated deficit was on a cash basis, at least this would indicate the overall impact of the

35 See report on task no.4, H. Bierman, August 1991.
sector in 1990. But the financing components, which were consolidated for the purpose of demonstrating the methodology only, are not the ones defined as net external and domestic bank and nonbank financing in the monetary and external accounts. For example, external disbursements are actually use of external funds, and domestic credit is not bank credit. Furthermore, a number of financial transactions are included in "aplicaciones financieras," including changes in bank balances. Once the decentralized entities begin reporting in the new classification format, the financing concepts can be checked for consistency with the other macro sectors, and can be useful for assessing the impact of the sector in the economy.

For the consolidation to be of analytical use, it is thus only required that the recommendations in the areas of accounting systems, classifications, and reconciliation be carried out. Work in both SID and AT is already being undertaken to collect, and correct the statistics collected, to enable a meaningful consolidation.

However, as we know, in fact this is not the cash impact for the year, as the operations of the government cover more than 1990.
VIII. ANALYSIS

The present capacity of the government's technical staff for fiscal analysis is limited. In so far as macro analysis is concerned, this is no wonder, because there is little statistics available in a format to support this type of analysis. Furthermore, there is little understanding of the interrelations between the fiscal accounts and the rest of the economy.

To improve this understanding, a workshop was given in fiscal and macroeconomic analysis during the project. Furthermore, training of SID personnel in analysis of the accounts of the individual entities was begun, but it soon became clear that most of the staff of this office needs much more extensive training than could be accomplished in the course of this project. An organizational structure was established for purposes of ensuring analysis of the statistics of each entity once it is received, and for consolidation of the individual analyses. However, for this organization to function, it is of course vital that the entities begin to supply information on at least a quarterly basis (or that this be collected by trained staff of SID and CGR, as recommended above), and that the analytical capacity of SID be strengthened.

With regard to AT, staff has been designated since June to analyze the central government operations on a monthly basis, and in particular compare performance with the program with the IMF. This analysis will be much more complete, once AT can elaborate the total financial operations of the government, including its financing components as established during this project. As noted above, the recommended concepts and classifications are close to those employed in the program with the IMF, and with a couple of modifications which AT can make relatively easily, the office will be able to monitor total central government performance on the same basis used by the program, while at present the office is only monitoring the above the line items.

The report on Task 5, subtask 1 includes a brief analysis of the performance of the nonfinancial public sector from 1985 to 1990, based on the consolidation of preliminary accounts for 1990, and on the IMF's series on the public sector for 1985-89.37 This

37 Analysis of the fiscal accounts was an explicit requirement in the terms of reference. It was assumed that this analysis should be based on the consolidated accounts for 1990. However, analysis of the performance in 1990 should be compared to either the budgets for the year or previous years’ performance. But the government did not have complete data for previous years, and furthermore, either these or budget data for 1990 would have necessitated significant additional work in reconciliation, reclassification and consolidation before they could be used for the analysis. In view of this it was decided to use the IMF’s
analysis was explicitly included in the terms of reference. However, it should be noted that this is not the type of analysis which should be presented monthly and quarterly. These more frequent analyses should be brief, and concrete, emphasizing major changes relative to budget, program or the previous year, with an indication of the causes of the development, whether they are expected to be permanent or transitory, their impact, and corrective measures, if applicable.

Assuming that more basic training will be given to the staff who needs both training in analysis and macroeconomics, the most effective and least cost training for purposes of writing these analyses is on the job training. Such training could be effected either by qualified supervisors or by periodical technical assistance.

series for previous years which were available on a similar basis in the IMF's "Recent economic Developments," dated December 1990.
IX. SUMMARY OF WORK PERFORMED, THE STATUS OF THE FISCAL INFORMATION SYSTEM, STRATEGY AND RECOMMENDATION FOR IMPLEMENTATION

In the course of this project, work has been accomplished in all areas of the information system, both institutionally and functionally defined. Institutionally, the work has covered the central government, the decentralized entities and the municipalities, including the overall institutional organization of the information system, and recommendations for a more effective institutional organization.

Functionally it has covered all phases of the fiscal information system, from the production of the basic data provided by the entities of the nonfinancial public sector (for purposes of monitoring and control of budget formulation and execution, or for assessment of the overall financial performance of the entity) to their evaluation and transformation by either source or user entities; the consolidation of the statistics, and the subsequent phase of analysis. Three workshops were given in the course of the project in the areas of accounting, classification and budget formulation (July 23 – 26); classification (March 12-15); and fiscal and macroeconomic analysis (June 10-14). The workshop calendars, list of attendance and lists of workshop material distributed are included in attachment 3. In summary, the technical assistance has followed closely the detailed terms of reference for the project. A summary of the status of the information system, work performed and recommendations for future work is contained below.

A. INSTITUTIONAL ORGANIZATION OF THE INFORMATION SYSTEM

Analysis of the institutional information system led to the recommendation that the organization should be simplified and centralized, at least in the short run until the basic data of the source units have been improved. An official coordinator should be appointed at the level of vice-minister in MHyCP; the coordinator should have close links to the economic management team. One office (AT recommended) should be officially left in charge of elaborating the official financial accounts of the central government, and another office (SID recommended) would similarly be authorized to elaborate the accounts of the decentralized entities, with the two offices collaborating in the consolidation of these accounts.

The report on institutional organization (Nº 1 in Annex 1) does not include recommendation on the municipalities which were subject to a separate study. The consolidation of the financial accounts of the nonfinancial public sector should be completed by the provision to SID of the accounts of the municipalities for inclusion in the consolidation. These accounts should be
elaborated separately, possibly in DGAATM of Ministerio de Gobernacion.

The recommended organization would necessitate temporary modifications to La Ley Organica de La Contaduria General, as many of the functions which the CGR should be carrying out would effectively be transferred to AT and SID. The team recommended that given the provisional nature of the changes, the Ley de La Contaduria General itself not be changed, but that a temporary modification to the law be issued in the form of a regulation to it. A draft of such a regulation is contained in Annex no.2 of the report on legal reforms. The draft regulation, which also includes the municipalities as the responsibility of SID, would need to be modified, to indicate the 'channels through which SID would receive the financial information on the municipalities.

Implementation of the system would require: 1) issuance of the Regulation; 2) appointment of a coordinator in accordance with Article 3 of the Regulation; 3) elaboration of the financial information needed from the source entities in both the central government and the decentralized entities to elaborate the financial accounts in view of the work done on concepts and classifications during the present project; 4) establishment of time limits for provision of the information; and 5) communication of the new system, including 3) and 4) above, to the source entities.

B. CENTRAL GOVERNMENT

In the area of the Central Government’s information system, the work has involved an analysis of the operations of the main accounting and executing units, with recommended modifications to achieve in the short run a less fragmented information system. This should make it possible to obtain information which will at the same time be consistent and produce the information needed to evaluate both budget execution and the financial impact of government operations in the economy. In the longer run, the recommendations are for further improvement of this system by updating of the budget and central accounting systems, and the gradual linking or integration into one system of the present individually operating accounting units.

As none of the recommendations which would impact directly on the quality of the data base of the central government have been implemented so far, the data base in the central government’s information system remains fragmented and inconsistent.

A major first step forward would be the implementation of the recommendations in section IV.A. above, which would make the various systems consistent, while providing the appropriate information so that AT would be in a position to compile the financial accounts of the central government. This would involve:
1. In the TGR:
   a. Computerization of the TGR's records on cancellation of payments orders
   b. Updating of these to current status.
   c. Maintenance of statistics on canceled payments orders, at least on calendar period basis.

2. In the DGCP:
   a. Establishment of a system in DGCP to register all loan and grant disbursements as of their effective disbursement.
   b. Establishment of system to register external and domestic debt service as of due date and at the effective payments date (regardless of whether payments orders have been issued). This will require that BCH establishes a system for same day communication to DGCP on payments made, and for DGCP to register these operations on a cash basis in addition to a payments order issued basis.

3. In BCH:
   a. Upgrading of the domestic debt management of the BCH, which will permit the BCH to provide information on domestic government debt holders on a monthly basis, with a lag of no more than 3 weeks.
   b. For domestic debt service payments, a similar notification system to DGCP must be established as for external debt service payments.
   c. Establishment of same day information system to DGCP on loan and grant disbursements as well as debt service payments effected.

At the same time, efforts should be directed to implement the recommendations in the area of the DGP to:

1. expand the coverage of the budget to all central government transactions;

2. register budget expenditure on a commitments and/or payments due basis; the cash basis will be provided by TGR.
3. close the budget year, to register cash payments, at December 31 every year.

Once the required statistics is being produced by all the offices, the consistency of the data between various office should be checked carefully, with needed adjustments made. With the completion of this phase, a reporting system to the CGR should be set up, provided that CGR has been mechanized and capacitated, and is ready for the job. As a final stage, computer linkage between CGR, DGP, DGCP and TGR can be begun. This would complete the program for improvement of the central government’s basic data.

With regard to the status of methodological and conceptual issues in the elaboration of the accounts, AT has already accepted the concepts and associated recommended classification scheme and reconciliation methodology, and will attempt to implement both in the short run. Its success in both will depend on the implementation of the changes recommended in section IV.A above, and on the timely flow of information on domestic financing from BCH. AT has also participated actively in the discussion of the consolidation methodology, so that the staff is aware of the requirements of this methodology. With the basic improvements noted above, AT will be able to implement the methodologies, possibly with some short term technical assistance.

Furthermore, monthly and quarterly analysis of the government’s financial performance is just beginning. Training was given during the project in this area in the workshop on fiscal and macroeconomic analysis, and in meetings with the staff of AT to discuss their data needs, as well as present and future methodologies. To support the development of analytical skills, hands-on technical assistance is recommended to guide and advise the staff concretely on the analyses as it is being elaborated.

C. DECENTRALIZED ENTITIES

As noted in section III. 2, the basic data of the decentralized entities reflect both problems in the budget formulation process and a lack of consistency between the various sources which report on their financial operations. The work of the project team thus covered both of these areas.

1. Budget formulation.

Examination of the budget formulation process of 5 decentralized entities led to identification of the following problem areas: 1) The constitutional requirement for two independent dictamenes (from SECPLAN and MHyCP) for the budget proposals; 2) lack of guidelines on how a dictamen should be formed and formulated; 3) lack of coordination (including no work division) between SECPLAN and MHyCP in issuing the dictamenes; 4) lack of supporting analysis in budget proposals; and 5) utilization
of different concepts and corresponding different classifications in treating original budget numbers. Finally, a major problem was found in the budget approval stage, where lack of approval has in many cases led to entities working under previous years budgets, as determined in Ley General de Administración Pública, Article 73.

The recommended solutions to the identified problems are: 1) the elimination of the requirement of two separate dictamenes and its replacement by one dictamen, supplied by MHyCP in consultation with SECPLAN; 2) the appointment of the Minister of Finance as budget coordinator; 3) the establishment of a budget calendar (subject to change every year) which permits initial concentration (by SECPLAN) on the investment budget; and later overall consideration of the individual budgets, with possible changes in investment budgets in consultation with SECPLAN; and 4) a legal change to induce the Congress to consider the budgets of the entities before the new budget year, and at the same time to ensure that the entities will at all times be operating under a budget designed and intended for that particular budget year. It should be noted that points 1) to 3) will require a change in the Constitution, as well as other legal modifications indicated in the legal report. The recommended revised budget calendar is shown in attachment 2.


No change has been effected in the basic data of the decentralized entities, which essentially remain weak and inconsistent. It is particularly disconcerting that inconsistencies between the budget accounts and the central accounts often reflect errors in the budget accounts. This clearly weakens the effectiveness of any monitoring and control effort based on budgetary execution data.

The integration of the budgetary and central accounting systems is recommended as a way of forcing these entities to maintain consistent and complete records. This is, however, a time consuming process. Integrating the systems of each of the remaining 3 of the 5 major decentralized entities (ENP and HONDUTEL already has integrated systems) will take several years. Therefore, even if it is decided to proceed with such integration, in the short to medium term the information system must contend with the existing unsatisfactory set of basic accounts.

In addition to the problems of the basic accounts, the economic classification schemes elaborated and proposed during the project for general government entities and public enterprises respectively, have not been accepted formally yet, and also remain to be implemented. More fundamentally, perhaps, the institutional classification scheme, which mainly affects these entities, has not been completed, nor have the principles and outlines of this scheme.
been approved by the government. Since this scheme determines whether an individual entity belongs in the general government or outside, in turn it determines which economic classification system should be applied to an individual entity. Therefore, the complete implementation of the economic classification scheme would have to await the completion of the institutional classification scheme. Furthermore, only after the implementation of the institutional and economic classification scheme can the consolidation methodology be implemented effectively.

In summary, in the course of the project, methodologies have been worked out for: 1) improving the accounting system by integration of the central and budgetary accounts; 2) the institutional classification of the public sector entities; 3) the economic classification to be used by each entity in reporting its financial performance and to be used as a summary also for reporting on its budget execution; 4) the consolidation of the accounts of the general government and the nonfinancial public sector entities.

All of these methodologies have been applied to examples. Thus the accounting integration methodology, although incomplete, was applied to the case of SANAA in report no. 14; the application of the institutional classification scheme was shown by many examples in report no. 14; the classification methodology was applied to the accounts of the central government and the ENP in report no. 5; the consolidation methodology was applied to the preliminary public sector accounts for 1990 in report no. 8. The consolidation methodology was applied to the preliminary public sector accounts for 1990 in report no. 16. Nevertheless, none of the methodologies have been either officially approved or implemented, although work is being done at the present time on both the economic classification and the consolidation methodology.

The recommendations for the short term in the area of the basic data is to 1) create conversion tables (as needed for the integration of the entities' internal budgetary and central accounts) for the major decentralized entities, even if these conversions are not mechanized; 2) revise the entities' conversion scheme from their internal accounts to the required detailed budgetary formats of MHyCP to ensure that these conversions are done correctly and in line with the recommended classification methodologies; 3) train a group of possibly 10 MHyCP staff, from SID and CGR, in the accounting systems of the entities in how to elaborate the individual entities' financial accounts from the source materials, including the conversion tables in 1) and 2) above; and 4) assign specific entities to specific staff, with

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Report numbers refer to those indicated in annex 1, which contains the list of individual reports elaborated during the project.

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responsibility for collecting and processing the needed information from each entity on a quarterly basis.

This program can only be carried out successfully with close supervision and technical assistance to the SID-CGR group for at least one year. The initial technical assistance should consist in a practical explanation of the budget and accounting systems, how the accounts are put together based on the source material, and the conversion into the economic classification scheme. For purposes of understanding the conversion into the economic classification scheme, a special training course in the economic classification, and the reasons behind this, might be very useful. Thus, the technical assistance would initially mainly consist of practical in-office training with the source material of the assigned entities, and later it would additionally include visits and problem solving on the premises of the entities, where the accounts would be expected to be elaborated quarterly. It should also be remembered that apart from this program, SID has a special need to train and upgrade any staff who is to have an active role in the system.

As a second phase of this program, and once the conversion techniques and classifications are well understood by the members of SID-CGR, they should begin to train counterpart staff of the individual entities, so that eventually the latter can take over the preparation of the information, with the SID-CGR staff only supervising and advising. At this point, the information should begin to be prepared monthly.

Once the economic classification system is in place, and the group is reporting financial performance in the approved format, reconciliation of these accounts with the monetary and external accounts should take place, just as was the case in the Central Government, before the consolidation of the accounts. Because of the lack of data so far, no work has been done in this area. Because of the lack of experience in the field and the difficulties of understanding the various sectoral accounts, technical assistance will definitely be required.

D. MUNICIPALITIES

In the area of the fiscal information system for the municipalities, an analysis was made of the impact of the new Municipal Law on the financial reporting of the municipalities, both with respect to the format and the frequency of this reporting. Recommendations were made that the technical assistance given to the municipalities through USAID (see below) take into account the needs of the fiscal information system for statistics from the municipalities in the economic classification format elaborated in task 1, subtasks 3 and 6. Furthermore, recommendations were made for changes in the new municipal law to 1) avoid the same problems as have been experienced by the
decentralized entities when these have had to work under the previous year's budgets; 2) to include specifically that the 6-monthly reports to SECPLAN should contain financial information about the budget execution; and 3) to give the municipalities more than 10 days to liquidate their budgets.

The report on municipalities recommends the establishment of a working group to design a financial information system for the municipalities, including the above budgets and reports. As to the format of these reports, given the principle of municipal autonomy, the report recommends that this issue should be left to the individual municipalities. Unless the municipalities decide to report in the same format, this leaves the receiving agency (DGAATM) to do the work of standardizing the various formats and classifying them according to the recommended economic classification. DGAATM is not equipped for this, and would need a strong program of technical assistance. If this recommendation is followed, this technical assistance should be given as soon as possible, in order to coordinate this work with that of ICMA on the Manual on Municipal Accounting.

This proposal envisages that the technical assistance provided by ICMA/RHUDDO/AID will be geared to implementing accounting systems and classifications consistent with those recommended in the present project. To the extent this is achieved, this will reduce the workload of DGAATM in reclassifying the accounts.

Alternatively, as mentioned in the report, the municipalities could be required to report in the desired format, if it is judged that this does not impede their autonomy. As long as the classification format does not impose a constraint on the accounting systems which the municipalities may adopt, it would not appear that requiring the information in a certain format would be an infringement on their autonomy. This system would greatly reduce the workload and the need for technical assistance to the DGAATM in Gobernacion, but it would mean that the municipalities would need technical assistance. In any case, the need for technical assistance might be greatly diminished to the extent that the present manual on municipal accounting being developed by ICMA is (or can be made) consistent with the desired classification format for reporting.

A second step in the ICMA/RHUDDO technical assistance effort might include a conversion program from the accounting system recommended by ICMA to the classification system recommended in the present project. On this background it is expected that the financial accounts of the municipalities will be classified according to the recommended format, either at the level of the municipalities themselves or in DGAATM, and subsequently provided

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to SID for consolidation with the accounts of the rest of the nonfinancial public sector.

Given that ICMA/RHUDD is already heavily involved in technical assistance to the municipalities, further technical assistance in this area would be expected to be channeled through these institutions, but care should be taken to ensure that the assistance is consistent with the needs of the information system developed in the present project.

E. CONSOLIDATION OF THE NONFINANCIAL PUBLIC SECTOR

As noted above, in order to explain the methodology, including by example, the consolidation was carried out for the nonfinancial public sector, based on preliminary data for 1990, even though part of the data (financing information) was in fact not available on the basis consistent with the needs of the users for macroeconomic purposes.

Once the data for all the accounts or segments have been reconciled to the monetary and external accounts, the consolidation in the narrow sense can be carried out following the methodology set out in report № 16. In fact, the consolidation can be carried out in the absence of a reconciliation, but its result will be less useful. It is expected that the SID staff in charge of this consolidation at present can carry it out without major problems. However, there is a definite need for technical assistance to supervise and train staff in the reconciliation methodology. Furthermore, there is an urgent need to train more staff in the consolidation methodology. Supervision and training in the reconciliation area may be combined with training of additional staff and advise in the area of consolidation methodology for technical assistance purposes.

F. ANALYSIS

As indicated, little analysis is being done at present in MHyCP. There is also a need for technical assistance in the final stage of the process which concerns the analysis of the performance of the individual entities, of segments of the public sector and of the consolidated sector. As was indicated above for the Central Government, in addition to the general training which SID needs, it is recommended that development of analytical skills is done in the process discussion and elaboration of the monthly and quarterly analyses. This means that technical assistance should be given for the preparation of the monthly or quarterly reports. This concrete approach is deemed to be the most effective way of developing the needed skills.
X. GOVERNMENT COMMENTS

The government’s comments on the final report have been reproduced in Annex 4. Most of the comments relate to the recommendations and the government’s decision regarding whether and how to implement these. The comments are summarized below, and their implications with respect to the work of the project team are indicated, with some important conclusions for Honduras’s fiscal information system drawn in chapter XI.

A. RECOMMENDED ORGANIZATIONAL STRUCTURE

The Government’s comments on the draft of the final report indicate that it has decided on a different organizational structure from that recommended. However, the comments do not clarify what the specific future institutional structure will be. In particular, the future role of AT and SID is left unclear, the CGR is left with responsibilities which it is not equipped to carry out at present, and there will be no changes in the legal system, even temporarily, to ensure that the latter corresponds more closely to the actual or envisaged work division.

Notwithstanding the lack of specificity regarding the government comments on the future organizational structure of the information system, it appears that the government has decided not to implement most of the recommended institutional changes designed to streamline the organization of the system, to pinpoint clearly responsibilities of both source and user entities, and to provide incentives to collaboration rather than competition in the provision of statistics. Furthermore, the Government has decided not to change the legal system to make it consistent and more supportive, even of the government’s chosen institutional structure. The specific government comments are summarized below.

The Government agrees with the recommendation to appoint a Coordinator at the level of vice minister in the MHyCP, but notes that this position needs to be supplemented with that of a Technical-operational Coordinator, which should have as his or her responsibility the development of the government’s and the decentralized sector’s accounting systems as well as their consolidation. Additionally, the Government sees the need to establish a 10 member working group under the technical-operational coordinator in order to carry out the recommendation in the draft of the final report that the effort should be concentrated in establishing a transparent central accounting system which will be up to date and provide exact and consistent data. The comments provide no information on the composition of the group. Neither do the comments provide information as to the envisaged future role of AT, SID and BCH as user entities.

The Government’s comments note that among the responsibilities of the above mentioned technical work group will be the
coordination with the project ICMA/RHUDO/AID and with the Dirección General de Asistencia Técnica Municipal (DGAATM) in Ministerio de Gobernación, to ensure that the financial information of the municipalities is elaborated in accordance with the needs of the public sector information system.

The Government has decided not to change the Ley de la Contaduría General de la República, even provisionally to ensure a closer correspondence between the legal and the real functioning of the system. Instead of modifying the Ley de la Contaduría General de la República temporarily to reflect the proposed temporary increased responsibilities of AT and SID, and the temporary reduction in those of the CGR, it has been decided to leave the Law unchanged, and to form a technical group, consisting of personnel from the MHyCP, BCH and the CGR to restructure the CGR and provide it the minimum equipment needed to speed up the functions which it has to carry out according to the law. While it is envisaged by the Government that the technical work group will have as its responsibility the consolidation of the financial accounts of the nonfinancial public sector, no special responsibility in this respect appears to have been assigned to AT and SID.

B. RECOMMENDATIONS REGARDING THE CENTRAL GOVERNMENT

The government’s comments indicate its overall agreement with the analysis and recommendations made in the draft of the final report in the area of the Central Government, covering improvements in TGR, DGCP and DGP.

Specifically, the government has indicated its concurrence with the analysis and recommended improvements for the operations of the TGR and has already initiated the recommended computerization of payments orders canceled. With respect to the DGCP, the government views the establishment of a domestic debt registration system on a timely basis as most important, and agrees with the recommendations of the report in this area. However, the government does not share the view of the project team that there are also problems with the external disbursements of loans and grants as well as debt service payments, reflecting both the timing of the recording of such transactions, and the incompleteness of the information on grants collected by the DGCP. Since no action is foreseen in this area, the external debt statistics will continue to be a source of problems in reconciling the government’s deficit with its financing as well as with the external accounts.

With respect to the recommendations for improvements in the DGP, the Government notes that the recommended changes are major, but that an effort will be made to implement them. Specifically, consistently with the project recommendations, the budget for 1992 incorporates debt service payments, which will facilitate the registration of debt service on a commitments, or payment due, basis.
The Government notes its satisfaction with the work done on the reconciliation of the Central Government's deficit with its financing, and with the monetary and external accounts. The report notes that it is very important for the Ministry of Finance to implement the recommendation contained in the report in this area. Most importantly, as indicated in the project team's report, the tasks of identifying expenditure on a cash and accrual basis can be carried out successfully with a bit of strengthening of personnel. This will permit the establishment of a deficit concept suitable for the reconciliation with the financing data.

C. RECOMMENDATIONS FOR DECENTRALIZED ENTITIES

The government comments indicate its concurrence in principle with recommendations 2) and 3) in Chapter IX.c.1. above (appointment of a Coordinator for the Budget Process, and the establishment of a budget calendar which gives time for consideration of investment decisions), but does not consider that an orderly budget formulation process will necessitate the elimination of the presently required two dictamenes, as recommended in 1) in Chapter IX.1. Consequently the Government does not agree to the necessity of the constitutional change recommended in 4) of Chapter IX.1 above. In its view, the appointment of the Vice-Minister of Finance as executive Coordinator of the Budget Process, will by itself result in a minimization of future divergences between the budget dictamenes issued by the Ministry of Finance and SECPLAN, and accordingly, there will be no need for any constitutional change to eliminate the requirement of two dictamenes.

The Government agrees that a major strengthening of the accounting systems of the decentralized entities is needed, but does not provide information on whether the recommended integration of central and budget accounting systems for the 5 major entities will be pursued. The Government notes that in its view a methodology for such an integration has not been established by the project team.

D. MUNICIPALITIES

El gobierno considera que la forma más viable para obtener la información que se necesita para elaborar las respectivas cuentas financieras y su posterior consolidación con el gobierno general y sector público no financiero, sería coordinando la SID con el Programa ICMA/RHUDO/AID. It appears that the government has not yet taken a clear position on at which stage in the reporting process the financial information supplied by the municipalities should be converted into a format which will satisfy the requirements for integration and consolidation of this information with that for the rest of the nonfinancial public sector.
E. CONSOLIDATION OF THE NONFINANCIAL PUBLIC SECTOR

The Government has accepted the methodology for reconciliation and consolidation of the nonfinancial public sector, and this methodology is being applied to the statistics for the years 1990-1992 by the SID. Nevertheless, notwithstanding the detailed derivation tables with explanatory columns and notes, which were developed and discussed with what was considered to be the appropriate AT and SID staff during the project, and applied to the statistics for 1990 to provide better guidance to the staff, the Government in its comments notes repeatedly that an explicit methodology was not developed. The Government also notes that training of SID and CGR is necessary in this area, in accordance with the recommendation of the project team. However, since the future institutional structure of the information system is not clearly specified in the Government comments, it is a question to what extent SID, AT and CGR will carry out the functions envisaged by the project team and will therefore need training.

A specific government comment relates to the recommended General Government concept. The government indicates that it is only in partial agreement with the recommended institutional composition of the general government. However, the project team made no such recommendation. As noted both in the individual report (on task 4) and the draft of the final report, the project team recommended a general government concept in line with that accepted internationally, but did not specify the institutional composition of this concept in the case of Honduras.

Because of the above, a general government was created only for purposes of explaining the consolidation methodology, which relied on existing Honduran institutional separations between the autonomous institutions and the public enterprises, but this was never recommended as the appropriate institutional classification. This was clearly explained in the individual report, which for that reason contained a separate section on public sector concepts which indicated that the institutional composition of the general government would need to be changed in accordance with a future revised institutional classification.

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40 See report on task no.4, H. Bierman, August 1991.
41 For a more detailed discussion of this and other comments of similar nature, see under G below.
42 See section G below.
43 See report on Consolidation methodology, task 4, p.48 f.
F. ANALYSIS

The Government indicates its agreement with the need for strengthening of the analytical capacity of the staff of SID and AT as well as with the recommendations to achieve this result specified by the project staff and summarized above in Seccion IX. F. The project team’s recommendations regarding the beneficiaries of this training will also need to be revised, once the responsibility for carrying out analysis has been placed in the future institutional structure of the information system.

G. METHODOLOGY VERSUS APPLICATION

The government comments note repeatedly that methodologies, claimed in the draft of the final report to have been developed by the project team, have not been developed. In fact, methodologies were developed and documented in the individual reports in all the areas claimed in the draft of the final report, including an economic classification methodology, a methodology for the reconciliation of the central government’s deficit with its financing, and with the monetary and external accounts, a classification methodology for General Government, a consolidation methodology for the general government and the nonfinancial public sector, and a methodology for integration of accounting and budget systems of the decentralized entities. Development, discussion and documentation of these methodologies constituted a major part of the work of the project team.

There may be several reasons for the statements that such methodologies were not developed. First, it may reflect a confusion between the development of a methodology and its application. This appears to be the case with regard to the methodology on the General Government concept, where the draft of the final report indicates that while the methodology was developed, the specific application of the concept to the classification of all the public sector entities in Honduras was not completed, partly because the methodology was never approved (p.2 of the draft report, and footnote 4). This also appears to be the case with regard to the methodologies developed for economic classification and integration of accounting and budget systems, although the methodologies were illustrated by application to examples.

Specifically, the project team emphasized the development of the conceptual basis for the classification and integration systems. It was thought that providing the Honduran staff with an understanding of the conceptual basis of the methodologies would leave the staff in a much better position to apply the systems than if they were merely provided with a list of items classified according to concepts and criteria which they did not understand. For example, understanding the basis for a classification would enable them to resolve future classification disputes based on
conceptual arguments. This approach does not seem to have been appreciated by the Honduran government.

A separate, but related reason may also help explain the government’s statements. Use of the methodologies require a certain level of skill, as it requires the user to understand the concepts and linkages, which in some cases are complex. The government may consider that it has few people who have the background to understand the methodologies sufficiently well to use them. This may be disappointing, given that it had hoped that development of the methodologies would enable staff with little or no training to carry out work of essentially complex nature. By contrast, the project team has emphasized the need for training of staff who will be working 'with the information system.
XI. CONCLUSION

The government’s response to the draft of the final report indicates that notwithstanding the recommendations of the project team, the organization of the fiscal information system will continue to be fragmented, without clearly defined responsibilities of the many users of information, and without improvements in the legal system which would serve to clarify and pinpoint responsibilities, thus providing a consistent body of legal support for a more effective and efficient information system. In most other areas, the government accepts the project team’s recommendations.

The project team’s recommendations in the institutional area were based on its terms of reference to define responsibilities in the system, to analyze deficiencies and define strategies to overcome them. In its view, these terms of reference have been complied with in its recommendations in the draft of the final report, which have therefore been retained in the present report. To a large extent, its work and recommendations in other areas have been based on this recommended institutional structure. Thus, recommendations with regard to training of specific office staff will have to be reviewed in light of the government’s proposed new structure. However, the latter has not been specified sufficiently in the government comment to permit a revision of the original recommendations. In fact, it appears from the government’s comments that the institutional responsibilities remain ill defined.

It is of concern that the lack of a clearly defined simplified organizational structure may hamper progress in improving the information system also in areas, where the recommendations of the project team have been accepted by the authorities. This is the case with the strengthening of the accounting systems, of both the Central Government and the rest of the nonfinancial public sector, the implementation of the classification, reconciliation and consolidation methodologies, and the development of the analytical skills of the concerned staff in the MHyCP.

The work, during this current project has outlined the problem areas and has developed a methodology and a system to correct them. The government has decided to accept only part of these recommendations. It is expected now that the national staff will be able to effect the desired changes. In fact, the national staff should have participated more actively in the current project and it is recommended that they play more active roles in the work that still remains. For this reason, a limited role is foreseen for future technical assistance. Generally, technical assistance is suggested only to coordinate, guide, counsel and train the national staff. The national counterpart of this technical assistance in the project’s different phases must assume total responsibility for the implementation of the respective phases.
ANNEXES
ANNEX 1

PROJECT TO IMPROVE THE FINANCIAL ACCOUNTS
OF THE NON-FINANCIAL PUBLIC SECTOR

List of reports submitted during the Project


7. Task #1, subtask #8. Juan Moraga, "Critical review of the procedures used to close the budget year of the central government, including the TGR, DGCP, DGP and BCH", August 1991.

8. Task #1, subtasks #1, 3, 6 and 11. Hjørdis Bierman and Paul Stroh, June 1991:

   Subtask #1 "Evaluation of the relevance of information requested by users for preparing financial accounts and for budget execution";

   Subtask #3 "Standardization of formats for the presentation of information. Study of alternatives based on the IMF manual";
Subtask #6  "Coordination of user effort to reach agreement on which are the appropriate sources for the preparation of financial accounts. Also, establish classification criteria concepts which should be used, and prepare drafts of regulations to be followed by the involved institutions"; and

Subtask #11 Preparation and implementation of mechanisms to integrate accounting and budgetary systems".


10. Task #2. Roy Murillo Gale, "The current municipal legal system."


12. Task #3 Central Government. Duke Banks III, July 1991:

Subtask #1  "Evaluation of discrepancies in the financial statistics of SECPLAN and MHyCP, and proposed measures to eliminate errors and discrepancies;" and

Subtask #2  "Analysis of major cases containing important discrepancies."

Task #3 Decentralized entities. Subtask B2:


Task #4, subtask 1, "Reconciliation of available data for the preparation of consolidated public sector financial accounts".

Task #4, subtask 2, "Recommendations to ensure the consistency of financial accounts, monetary accounts and the balance of payments".
16. Task #1, subtask 5; task #4, subtasks 1 and 2, and task #5, subtasks #1 and 2. Hjørdis Bierman, August 1991.

Task #1, sub-task 5. "Establishment of a work program to periodically reconcile financial statistics from several sources covering government operations. The contractor will train the MHyCP personnel on the use of reconciliation systems, as needed;"

Task #4, subtask #1, "Reconciliation of available data for the preparation of consolidated financial accounts for the public sector".

Task #4, subtask #2, "Recommendations to ensure consistency between the fiscal, monetary and the balance of payments accounts.

Task #5, subtask #1, "Improve in the short-term the analysis process of the causes of the fiscal deficit, and present alternative solutions and their financing. This work will include an analysis of the fiscal accounts, the preparation of interpretive reports and the training of personnel in this type of analysis."

Task #5, subtask #2a, "Analysis of user information needs to carry out their fiscal and macroeconomic responsibilities".

Task #5, subtask #2b, "Establishment of procedures to ensure that the various user entities produce monthly or quarterly reports based on the information received".

ANNEX 2

Proposed Budget Calendar

Investment Budget

April 1  
Budget policy guidelines for investment delivered to the decentralized agencies by SECPLAN in consultation with MHyCP.

April 1-21  
Preparation by the decentralized institutions of the investment budget, including the impact on the current income and expenditure budget in the medium-term. Updating the investment program for three years. Establish the order of priority of the projects and describe financing mechanisms.

April 21  
Delivery to SECPLAN of the preliminary investment program by the decentralized institutions.

April 21-May 10  
SECPLAN analysis of proposed investment program.

At the same time, the MHyCP makes a global analysis of current income of the central government to determine, in preliminary form, the funds available within the central government for capital transfers and subsidies to the decentralized institutions.

May 11  
Preliminary opinion regarding investment projects, in order of priority, on the part of SECPLAN for all decentralized institutions.

Note: when the source of funding requires a transfer of funds from the central government, the order of priority would be on a global basis, compiling the projects of all the decentralized institutions.

May 12-13  
SECPLAN and MHyCP meetings on the preliminary opinion of investment projects. Adjustments to projects based on preliminary analysis of income by MHyCP.
May 15 Distribution by SECPLAN of the preliminary opinions regarding the investment projects to the decentralized institutions, indicating those projects which could be eliminated or added, depending on the last calculation of budgeted expenditure and income.

Current Expenditure and Income Budget

May 15 Distribution by the MHyCP of forms and instructions to the decentralized institutions to prepare their current expenditure and income budgets, incorporating in their budgets the investments indicated in the preliminary opinion.

May 15–June 25 Preparation of the proposed current expenditure and income budget by the decentralized institutions.

June 25–30 Approval of the investment and current expenditure and income budget by the Board of Directors of each decentralized institution.

June 30 Delivery to MHyCP of proposed budgets by the decentralized institutions. This includes the investment budget previously approved at a preliminary level by SECPLAN plus the current expenditure and income budget.

July 1–30 Analysis by MHyCP of budget proposals.

August 1 MHyCP and SECPLAN meet to review preliminary budget amounts, and see if the capital investment program requires modification based on the last calculation of available resources of the central government.

August 2–3 Joint distribution by SECPLAN and MHyCP of the preliminary budget of current expenditures and income plus the investment plan to the decentralized institutions. This is the equivalent of the final opinion at a draft level.
August 4-8
Review of the preliminary budgets in the final opinion at the draft level by the decentralized institutions.

August 9-30
Meetings between the managements of the decentralized institutions and the MHyCP and SECPLAN to discuss the preliminary opinions at the draft level.

(Note: this implies 41 meetings, one for each decentralized institution.) The reason for these meetings is to resolve any inconsistency which could arise in the opinions at the draft level, and to make a final analysis of the impact on the level of service which will occur with the proposed budget.

September 1-5
Adjustments to the budgets based on the joint recommendations between the MHyCP and SECPLAN and the decisions of the coordinator of the budget process. Preparation of a joint opinion for each decentralized institution by the MHyCP and SECPLAN.

September 6-10
Presentation of the proposed budget for the initial approval of the President of the Republic.

September 11-14
Delivery of opinions to the decentralized institutions so that they may incorporate the recommendations and modifications into the budget proposal and later submission to the National Congress.
### SUMMARY OF WORKSHOPS

**Workshop No.1**

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<thead>
<tr>
<th>Date</th>
<th>Program</th>
<th>Speaker</th>
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<tbody>
<tr>
<td>3-12-91</td>
<td>Inauguration</td>
<td>Lic. Rene Ardon Matute</td>
</tr>
</tbody>
</table>

**Topics:**

1. Introduction                  Hjørdis Bierman  
2. Analytical Institutional Framework Adrian Guissarri  
   2.1 Analytical Functions of Fiscal Accounts  
   2.2 Institutional Organization  
   2.3 Literature

3-13-91  
3. Central Government and Local Government Fiscal Accounts  
          Adrian Guissarri  
   3.1 Income  
   3.2 Expenditures  
   3.3 Financing  
   3.4 Macroeconomic Impact

3-14-91  
4. Fiscal Accounts, Decentralized Institutions  
          Adrian Guissarri  
   4.1 Budget and Control of the Decentralized Institutions  
   4.2 Financial Accounts

3-15-91  
5. Consolidation of Public Sector Financial Accounts  
          Adrian Guissarri  
   5.1 Central Government Consolidation  
   5.2 Consistency of Monetary Accounts and Balance of Payments

**Material Distributed in the First Workshop**

<table>
<thead>
<tr>
<th>Participants Name Represented</th>
<th>Profession/Position</th>
<th>Institution</th>
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<tbody>
<tr>
<td>Erika J. Zepeda Lainez</td>
<td>Lawyer</td>
<td>Asesoria Tecnica Municipal</td>
</tr>
<tr>
<td>Jose V. Moncada Osorio</td>
<td>Accountant</td>
<td>I.N.A.</td>
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<td>Ana L. Moya Posas</td>
<td>Pub. Administration</td>
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<td>Manuel Rivera Castillo</td>
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<td>I.H.S.S.</td>
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<tr>
<td>Edgardo Carias Fletes</td>
<td>Accountant</td>
<td>MHycp SID</td>
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<td>Gilberto Ravenaeu Urquia</td>
<td>Economist</td>
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<td>Franklin Enrique Montalvan</td>
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<td>Jose Emigdio Aviles Zuniga</td>
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<tr>
<td>Leslie de Calix</td>
<td>Business Admin.</td>
<td>EDUCREDITO</td>
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Workshop No. 2

Seminar/Workshop Fiscal Analysis and Impact of the Public Sector in the Macroeconomy.
June 10 to 14, 1991

Program

June 10

The position and the impact of the non-financial public sector in the macroeconomy.

Lecture 08:00 A.M. - 10:30 A.M. Hjørdis Bierman
Workshop 10:45 A.M. - 12:00 noon
Workshop 13:00 - 15:30

June 11

Macroeconomic impact of alternative financing methods, that is to say, inflation, real growth, balance of payments. (The distinction is between financing from the banking system, the private sector, external financing).

Lecture 08:00 A.M. - 10:15 A.M. Hjørdis Bierman
Workshop 10:30 A.M. - 12:00 noon
Workshop 13:00 - 15:30

June 12

Analysis of public sector aggregates. That is to say, income, expenditures, current account balance, deficit, financing.

Lecture 08:00 A.M. - 09:30 A.M. Hjørdis Bierman
Workshop 10:00 A.M. - 12:00 noon
Workshop 13:00 - 15:30

June 13

Standards for interpretive fiscal reports.

Lecture 09:00 A.M. - 10:00 A.M. Hjørdis Bierman
Workshop 10:30 A.M. - 12:00 noon
Workshop 13:00 - 15:30

June 14

Standards for interpretive fiscal reports.

Workshop 08:00 A.M. - 12:00 noon
Workshop 13:00 - 15:00
Conclusion 13:00 - 15:30

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## Participants in the Second Workshop

<table>
<thead>
<tr>
<th>Participant Name</th>
<th>Profession</th>
<th>Institution</th>
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<tbody>
<tr>
<td>Roberto Zuniga</td>
<td>Economist</td>
<td>Dept. of Analysis (Budget)</td>
</tr>
<tr>
<td>Lorena Valladares</td>
<td>Economist</td>
<td>Dept. of Income (Budget)</td>
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<tr>
<td>Edgardo Alvarado V.</td>
<td>Economist</td>
<td>Dept. of Income (Budget)</td>
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<td>Dilcia Tabera</td>
<td>Economist</td>
<td>Technical Assistance Office</td>
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<tr>
<td>Elizabeth Rivera</td>
<td>Economist</td>
<td>Technical Assistance Office</td>
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<tr>
<td>Oscar Garay</td>
<td>Accountant</td>
<td>Public Debt Division</td>
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<td>Melvin Redondo</td>
<td>Economist</td>
<td>Public Debt Division</td>
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<tr>
<td>Magda L. Ramon</td>
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<td>Superintendency (SID)</td>
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<td>Amanda Cervantes</td>
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<td>Jackaline de Carranza</td>
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<tr>
<td>Juan Quiroz</td>
<td>Economist</td>
<td>Central Bank</td>
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Material Distributed in the Second Workshop

Document #

1. Notes for the Workshop
2. Exercises to be carried out in the workshop
6. Readings: "Theoretical aspects of the design of adjustment programs supported by the Fund", sections I-III. (IMF, Studies No.55)
7. Readings: "Relations among the macroeconomic accounts". Prepared by the IMF Institute.
**Workshop No. 3**

**Title:** Accounting Systems and Budgetary-Financial Classifications

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<tr>
<td>7-23-91</td>
<td>Inauguration</td>
<td>Vicente Diaz</td>
</tr>
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<td>7-24-91</td>
<td>1. Financial Classification Methodology</td>
<td>P. Stroh</td>
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<td>1.1 General Framework - Present Situation</td>
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<td>1.2 Application of the IMF Manual</td>
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<td>J. Moraga</td>
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<td>2.1 Institutional Classification</td>
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<td>2.2 Definition of the Point of Budgetary Expenditure</td>
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<td>2.4 Accrual vs. Cash Basis</td>
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<td>2.5 Patrimonial Accounts (double entry)</td>
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<td>2.6 Integration of Budgetary and Accounting Records</td>
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<td>2.7 Integration (consolidation) of the General Government</td>
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<td>7-25-91</td>
<td>3. Process of Accounting for and Reporting of Transactions</td>
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<td>3.1 Recording Transactions in Real-time, Daily, and Continuous Information</td>
<td>P. Stroh</td>
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<td>3.2 Points of Aggregation and Assignment of Institutional Responsibilities</td>
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<td>7-26-91</td>
<td>4. Internal Controls</td>
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<td>4.1 Methods of Obtaining Consistency in Financial Statements</td>
<td>J. Moraga</td>
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<td>4.2 Methods of Assuring that Accounting/Financial Statements Reflect the Real Situation</td>
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<td>5.1 Budget Calendar</td>
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<td>5.2 Internal Budget Formulation Model</td>
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<td>5.3 Presentation of the National Port Authority Budgetary System</td>
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### Participants in the Third Workshop

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<th>Participants Name Represented</th>
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<tr>
<td>Maria del Pilar Sabillon</td>
<td>Planner</td>
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<tr>
<td>Francia Nazar</td>
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<td>Virgilio Espinal O.</td>
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<td>Admin. Chief</td>
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<td>Manuel de J. Flores</td>
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<td>Efrain Madrid Oineda</td>
<td>Program-Budget Specialist</td>
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<td>Elizabeth de Padgett</td>
<td>Finance Chief</td>
<td>BANASUPRO</td>
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Material Distributed in the Third Workshop

A. Accounting and Classifications

1. Viewgraphs referring to definitions and concepts of:
   - Information systems
   - Accounting systems
   - Integrated accounting systems
   - Integrated accounting entries
   - Economic classifications
   - Principles of computer processing and systems theory

2. Recommended economic classification.

3. Copies of formats to be used in the formulation of proposed budgets for decentralized entities.

4. Diagram showing the institutional organization and data flow channels of the non-financial public sector in Honduras.

5. Table showing the comparative relationship in format presentation of fiscal accounts, between the central government, the rest of the general government and the non-financial public enterprises.

6. Format used by the MHyCP for the consolidation of fiscal accounts of the entire non-financial public sector.

7. Comparative table of financial statements of the central government and enterprises.

B. Budget Formulation

1. Recommended calendar for budget formulation.

2. Material distributed by ENP:
   a. Proposed zero-based budget for 1991
   b. Equivalencies: accounting-budget-government
   c. Operative Plan - 1991 Budget
      Program of Goals and Objectives
   d. Totals of direct salaries and benefits, 1990 Budget.
Tegucigalpa


The draft of the final report presented on the 10 of September 1991, integrates in summary form the individual reports of the consultants 44, except the one prepared by Gustavo Tejada which is considered irrelevant, supposedly, since we do not know its contents. In addition, the report presents an analysis of the present financial information system, as well as recommendations for improvements in the short and medium-term, but no formal prognosis.

1. General Comments

Based on the terms of reference of the project we consider that the range of topics to be covered, related to the financial-accounting, budgetary and economic information systems, was very ambitious in relation to the duration of the project (6 months), and, considering that, with the exception of the consolidation exercises of the non-financial public sector, the reconciliation with the monetary accounts and the workshops, we can say that the rest of the tasks and activities undertaken do not totally satisfy the expectations which the government had. Possibly, the structure of the consulting group 45, in addition to the time frame, might be another factor that negatively influenced the expected output. Moreover, the methodologies referred to in the report lack the necessary explanations to follow, step by step, the process of integration of the accounts of the central government, of the general government, of the consolidation of the non-financial public sector, and of the macroeconomic reconciliation. Having said this, however, the tables and statistics are included which allow, with some effort, the derivation of an

44 Adrian Guissarri, Juan Moraga, Paul Stroh, Duke Banks, Roy Murillo and Hjørdis Bierman.

45 Included as an annex are the comments on the individual reports.
explanatory methodology in order to prepare economic-financial reports, which constitutes the fundamental objective of the Project, to provide training to the personnel who will have the responsibility to formulate and present these reports.

The series of reports, with some exceptions, have the merit of compiling and presenting a great portion of the weaknesses of the present information system, but, at the same time, some criticisms of the institutional concepts of the public sector, contained in some of the manuals examined by the consultants, principally the one that refers to the Budgetary Classification Manual of the DGP, are not correct, given that in practice, both the MHyCP and the BCH, make the distinction between the financial and non-financial public sector in the financial accounts, discarding, as inadequate, the institutional classification contained in the mentioned manual.

With respect to the composition of the financial table called General Government, this is a classification which, to date, is not utilized by any central institution of the government or the public sector, with the result that, even if one recognizes the erroneous structure contained in the same manual, which the report correctly criticizes, this has not generated conceptual confusion because it has not been applied. Concerning this last topic, we want to express our partial agreement with the proposal of General Government used in the report, when all of the subgroup of so-called autonomous institutions are added to the central government's statistics. Our argument in this respect, is based on the fact that not all autonomous institutions are financially dependent on central government transfers, and, as an example, we mention the Instituto Nacional de Formacion Profesional (INFOP) and EDUCREDITO cases, which have income originating almost totally from the private sector. Nevertheless, we have considered it necessary to construct the suggested account prior to the consultations on this topic which will be made with the International Monetary Fund (IMF) in order to standardize the financial accounts of the country with those accepted internationally.

2. Specific Comments on the Recommendations

A. Organization of the Information System

We agree to the appointment of an Official Coordinator at the level of Vice-Minister in the MHyCP. Nevertheless, we consider this coordination should be done at two levels, one strategic and the other operational. Officially, the Vice-Minister of Administration and Expenditures exercises the functions of Executive Coordinator for the budgetary process
for the entire public sector, which means that he not only coordinates the budget system, but also the accounting and fiscal accounts of the State. Evidently, given the multitude of his responsibilities, he will need the efficient help of a Technical/Operational Coordinator, who will be appointed to that effect. This Operational Coordinator will have under his responsibility the development of the accounting system of the State, comprised of the central government and the decentralized sector, and its consolidation, and will receive the required inputs and source documentation from the accounting and budget offices, respectively.

The technical team will be formed by ten qualified persons who will carry out the identified tasks.

With the establishment of this working group, the recommendation of the Final Report will be carried out, that is, efforts will be concentrated in re-establishing a central accounting system which will fulfill the requirements that the information is exact, consistent and up-to-date, and which also gives transparency to the operations.

Also, a member of the mentioned team will coordinate with the ICMA/RHUHU/AID Project and with the Dirección General de Asistencia Tecnica Municipal (DGAATM) of the Ministry of Government, in order to have the financial information of the Municipalities prepared according to the appropriate requirements and consolidated with the rest of the non-financial public sector.

With respect to the temporary modification of the Law of the Contaduría General (Accountant General) de la Republica (CGP), in the form of Regulations, it has been decided to create a technical term integrated by MHyCP, BCH, and the same CGP, in order to proceed in the short-term with the internal restructuring, as well as to provide the minimum required equipment to facilitate the functions which the law mandates. In other words, we consider it more viable to achieve a substantial improvement of the CGP through an administrative mechanism rather than a legal process, given that there is the will and determination to this effect.

B. The Central Government

Concerning the suggested recommendations for the improvement of the central government information system, to provide for consistency with the subsystems, and at the same time provide adequate information, the following considerations are offered:

- With regard to the TGR, we agree with the observations, and in order to achieve the accomplishment of these
recommendations, we have initiated the computerization of the records of paid payment orders to allow for the preparation and maintenance of relevant statistics.

- With regard to the DGP, we do not see the system for recording grants and loan disbursements as a major problem, since there already exists a complete system of recording direct and indirect external debt. Nevertheless, strict coordination is needed with the BCH to establish a domestic debt management system, which will permit the reconciliation of accounts by type of instrument and issuers of the same, as recommended in the Report.

- In the area of the DGP, even though the change recommended is extensive, and the necessary mechanisms and actions are not clearly specified, an effort will be made towards improving the registers that the information system demands. In fact, the budgetary information system has already been redesigned using modern technology with the software data manager SUPRA and the fourth generation language MANTIS.

Similarly, the budget for 1992 adopted a report recommendation to include all the debt service payments in the budget, and, already, the payment orders are now being issued for debt servicing in the current year.

In relation to the work done on the reconciliation of the Central Government deficit with its financing and with the monetary and external accounts, we share the criterion of the recommendations and we consider that this report has been prepared with in-depth technical knowledge of the material, and it is of great immediate help in carrying out the analytical work of the AT Office, which is in charge of monitoring the financial accounts under the IMF program.

It is very important for the Ministry to implement the recommendations contained in the report on this topic, and even more important, that, as recognized in the report, with minimal personnel reinforcement the work needed to identify cash and accrual operations, can be realized. In this way, a deficit concept can be established which is reconcilable with the financing.

C. DECENTRALIZED ENTITIES.

1. For the identified problems in the budgetary formulation stage, the report makes recommendations which require reforms to the Constitution of the Republic, as well as other legal
modifications, specifically to eliminate the requirement of two separate opinions, the appointment of the Ministry of Finance as coordinator of the process, and the establishment of a budgetary calendar.

With regard to these, we consider that the recommendations are well intended, but we do not consider a constitutional reform necessary for their implementation. The national counterpart informed the consultants that the Vice Minister of Finance was officially appointed as Executive Coordinator of the Budgetary Process, with the purpose of unifying the criteria among institutions involved in formulating opinions, having achieved a joint work effort between the MHyC and SECPLAN for the 1992 budget. The result is that differences are minimized in order to avoid that institutions elect the opinion which is most favorable to them with respect to the size of the budget, thus managing not to observe the fiscal policy guidelines which are intended to rationalize the use of available resources.

We agree with the elaboration of a budgetary calendar that allows for sufficient lead-time, to permit the development and organization of the process based on defined government investment priorities and with expenditure policies compatible with sound finances and rising levels of savings.

2. Concerning the budgetary execution, monitoring and control, and the preparation of financial accounts, the report points out that methodologies have been formulated to integrate the accounting and budgetary systems, as well as to classify institutionally the public sector entities. In these aspects we disagree with what is written in the report. First, the methodology to integrate the accounting and budgetary systems was not presented, nor was the institutional classification finalized.

Likewise, the implementation of the economic classification to be used by each entity is recommended, even though no methodology is included to specify the contents of the same for each economic classification heading, nor how one should structure the methodology so that it could be easily transmitted to the personnel not familiar with this field. We acknowledge that there was an attempt at integrating the economic classifications with the ENP, but this does not imply that it could be equally applied to the rest of the institutions, especially considering that the ENP has made substantial progress in upgrading its accounting and budgetary systems.

In the development of a central accounting system, it is considered very important to strengthen the accounting systems of the decentralized institutions that are known to be weak,
an aspect which was treated superficially in the contractor’s work.

The consolidation of the general government and the non-financial public sector accounts is being implemented to the extent that the corresponding information is received.

The recommended personnel training for the SID is absolutely necessary, and in fact, a group with the required capacity and aptitude to learn and apply the technical skills which these activities demand, has been selected. A similar process will be used with CGP personnel and later extended successively to the counterparts in the individual institutions.

Simultaneously with the above effort, the implicit methodology present in the tables prepared by the Chief of Party of this project, is being interpreted to make it more understandable to the users, because, as was previously mentioned, the methodologies were not prepared for easy comprehension.

D. MUNICIPALITIES

The gathering of Municipal financial information for the purpose of preparing corresponding financial accounts, and its later consolidation with the general government and non-financial public sector, can be accomplished using the format recommended by the Project or the reports prepared by the municipalities for the Ministry of Government. A more viable approach to obtain the information should be to coordinate SID with the ICMA/RHUDO/AID program.

E. NON-FINANCIAL PUBLIC SECTOR CONSOLIDATION

The proposed formats to reconcile and consolidate the non-financial public sector have been accepted and are being applied to the 1990-1992 numbers by the SID, although the methodology to be applied is being derived from those formats, because it was not included in the reports.

We totally agree with the need to provide technical assistance concerning the analysis of performance of individual institutions, the public sector as a whole, and its impact on the macroeconomic accounts. The recommended procedure to develop the analytical skills of the personnel involved in the preparation of the monthly and quarterly analyses is considered an effective approach.
SYNTHESIS AND CONCLUSIONS FOR THE FOLLOW UP TO THE FINAL REPORT RECOMMENDATIONS.

Taking into consideration the recommendations formulated in the draft final report, as well as the needs and priorities of the Government regarding information systems, the Ministry of Finance and Public Credit has resolved to take the following actions:

1. Appointment of the Coordinator at a strategic level with a Vice Minister rank (Lic. Rene Ardon Matute, Vice-Minister of Public Credit and Administration of MHyCP).

2. Creation of the commission at a strategic level, composed of officials who hold positions at the minimum of Director or Manager.

3. Appointment of Technical Operational Coordinator.

4. Creation of a Technical Team composed of 10 qualified officials.

5. The technical team, to be headquartered in the Ministry of Finance, will have the responsibility to establish a Central Accounting System and the consolidation of the Public Sector Financial Accounts, including the reconciliation of the deficit of the Central Government with its financing.

6. A Technical Team member will coordinate with the ICMA/RHUO/AID Project and with the Direcccion General de Asistencia Tecnica Municipal (DGAATM) of the Ministry of Government in order to ensure the consolidation of the Municipalities' financial information with the rest of the non-financial public sector.

7. The reforms needed in the Accountant General Office (CGR), in all aspects, will be done through administrative channels, and once the work of re-establishing the accounting system is completed, its implementation will be formalized in the CGR.

8. In the same way, the discrepancies resulting from the simultaneous formulation of budget opinions for the decentralized institutions, will be resolved via coordination among the involved institutions.

9. A calendar for the budgetary process will be prepared for the central government and the decentralized institutions.
10. The analytical capacity of the Office of Technical Advice (AT) and the Superintendency of Decentralized Institutions (SID) should be strengthened.

11. In order to achieve the primary objective of the Technical Team, support is required from USAID in the following areas:

a) Technical Assistance to orient the National Group in:
   - Adoption of adequate methodologies for the development of an accounting system which can harmonize with the monetary accounts and the balance of payments, and that will satisfy the requirements of the national accounts system.
   - Strengthening of accounting systems in the decentralized entities that have weaknesses.
   - Design of an Information System for the national accounts.
   - Advancing in the short-term in the reconciliation of the Central Government deficit with its financing.

b) Training of the Technical Team and of the counterparts in the decentralized entities.

c) Equipment for the automated information system as required to develop the Central Accounting System and consolidation, including both software and hardware.

The technical assistance to be included in this project should be of the nature to guide the technical team members in the performance of their tasks; the advice could be provided in short missions, within a definitive work schedule, so that the consultant would be able to direct the tasks and evaluate the progress periodically.

- Establish the terms of reference to hire a short-term (one year) external advisor, to assist in the preparation of the fiscal accounts and their consolidation.

- Establish the terms of reference to hire a short term (one year) external advisor for the global reconciliation of the fiscal and monetary accounts and the balance of payments.