

Report No. 19617-GU

Guatemala Expenditure Reform in a Post-Conflict Country

February 4, 2000

Central America Department
Latin America and the Caribbean Region



Document of the World Bank

CURRENCY EQUIVALENTS
 Currency Unit: Quetzal (Q)
 US\$1.0 = Q7.90 (February 3, 2000)

GOVERNMENT FISCAL YEAR
 January 1 to December 31

GLOSSARY OF MAIN ACRONYMS AND ABBREVIATIONS

BANVI	National Housing Bank	INDE	National Electrification Institute
BOG	Central Bank of Guatemala	INDECA	National Inst. For Agrarian Commercialization
CABEI	Central American Bank for Economic Integration	INFOM	Municipal Development Institute
CG	Consultative Group	IUSI	Impuesto Unico Sobre Inmuebles
CGO	Comptroller General's Office	LSMS	Living Standards Measurement Survey
CIACI	Inter-institutional Commission for the Facilitation of Int. Cooperation	MINUGUA	United Nations Mission in Guatemala
CIEN	National Center for Research and Studies	MOE	Ministry of Education
COEDUCAS	Education Committees	MIFIN	Ministry of Finance
CONALFA	National Literacy Commission	MOH/MSPAS	Ministry of Health/Ministerio de Salud Pública y Asistencia Social
CONAMA	National Environmental Commission	MTEF	Medium Term Expenditure Framework
COPECAS	Permanent Commission for Coordinating Water and Sanitation	NFPS	Non Financial Public Sector
CORFINA	National Finance Corporation	NGO	Non-Governmental Organization
COVIAL	Unidad Ejecutora de Conservación Vial	ONSEC	National Office of Civil Service
CSC	Civil Service Commission	PAHO	Pan American Health Organization
DC	Development Councils	PHC	Primary Health Care
DTP	Technical Budget Directorate	PIP	Peace Investment Plan
EEGSA	Electricity Enterprise of Guatemala	PIR	Public Investment Review
EMPAGUA	Guatemala City Municipal Water Corporation	POA	Annual Operational Plan
FEGUA	Guatemalan Railroad Company	PRONADE	National Program for Education Self-Management
FIS/SIF	Fondo de Inversión Social/Social Investment Fund	SAT	Superintendency of Tax Administration
FODIGUA	Guatemalan Fund for Indigenous Development	SCR	Strengthening of Civil Rule
FOGUAVI	Guatemalan Housing Fund	SEA	Socioeconomic and Agrarian Issues Accord
FONAPAZ	National Peace Fund	SEGEPLAN	Economic Planning Secretariat
FSDC	Solidarity and Community Development Fund	SIAF/SAG	Integrated Financial Management System
GIS	Geographic Information System	TELGUA	Guatemalan Telecommunications Enterprise
GOG	Government of Guatemala	UBN	Unsatisfied Basic Needs
GUATEL	Guatemalan Telecommunications Company	UEP	Project Execution Unit
IAHS	Integrated Attention to the Health System	UNDP	United Nations Development Programme
IDB	Inter-American Development Bank	UNICEF	United Nations International Children's Education Fund
INE	National Statistics Institute	USAID	United States Agency for International Development
IFMS	Integrated Financial Management System	VAT	Value Added Tax
IGSS	Guatemalan Social Security Institute	ZONAPAZ	Peace Zone
IMF	International Monetary Fund		

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The Task Manager for this report is José R. López-Cálix (LCCGT). It is based on a series of missions to Guatemala during November 1998-August 1999. It reflects joint collaborative efforts with the Government of Guatemala (Peace Secretariat, Ministries of Finance, Education, Health, Communications, Transport and Public Works, Energy, Bank of Guatemala, SEGEPLAN and the social funds), the Superintendencies of Telecommunications, Energy, Banks and Tax Administration, the Fiscal Pact Commission, MINUGUA, and the Peace Secretariat. Its main contributors are: Ricardo Tejada (Bank staff—statistical analysis); María del Carmen Aceña, and Carlos Ralón (consultants—education); Ligia Chinchilla (consultant—roads and health); Edgar Barillas and Ricardo Valladares (consultants—health); Alberto Zúñiga, Sigfrido Lee and Manfredo Chocano (consultants—social funds); Fernando Rojas (Bank staff—fiscal decentralization); María E. Anderson (consultant—education); Carmen Urizar and Carlos Prera (consultants—energy and telecommunications); Jorge Lavarreda (consultant—housing); Peter Gregory and Maritza Ochoa (consultants—public employment); Mauricio Funes (consultant—external debt); Rafael Lemus (consultant—fiscal spending and contingent liabilities); Pablo Schneider (consultant—Mitch expenditure assessment). Other Bank staff that provided useful inputs are: Ronald Myers (public sector reform); Guillermo Ruan (road specialist) and Juliana Weissman (social funds specialist). Alberto Espejo and Mercedes DaCosta (IMF), Alex Segovia (MINUGUA), James Wesberry (consultant—institutional issues), Osvaldo Albano (IFMS) and Jaime Carrera (rural issues) provided valuable external contributions. Gabriela Gonzáles, Annabella Lucas, Claudia Hernández and Celeste Peralta provided extraordinary editorial support. Bank Peer reviewers were: Anwar Shah, Vinaya Swaroop and Ana Maria Arriagada.

RESUMEN EJECUTIVO

La firma de la paz en 1996 brindó a Guatemala una oportunidad única de redefinir su agenda de desarrollo, aunque también implicó un reto crucial para la modernización de su sector público.

i. Cuando se firmaron los Acuerdos de Paz en diciembre de 1996, Guatemala tuvo una oportunidad única de revertir su viejo modelo de desarrollo que había conducido a la pobreza y exclusión de grandes segmentos de la población. Los Acuerdos de Paz conllevaron no solamente el fin del conflicto armado, sino además y más fundamentalmente, la redefinición de la agenda social y económica del país. La visión de los Acuerdos de Paz es fundamentalmente la de una sociedad más próspera, incluyente e igualitaria. Al mismo tiempo, el Gobierno comprendió que enfrentaba un tremendo reto para volver esta visión en realidad. El Programa Económico y Social 1996-2000 del Gobierno estableció claramente una estrategia para un mayor crecimiento económico y reducción de la pobreza. Ello requeriría de un marco macroeconómico sólido, del financiamiento de los programas de paz manteniendo una posición fiscal prudente, de la redefinición de la relación entre el sector privado y el público para apoyar un crecimiento liderado por el sector privado, y de la modernización total del sector público de Guatemala. Este informe, el tercero de una serie que ha acompañado los Acuerdos de Paz, analiza el marco macroeconómico, el progreso en la reestructuración del gasto público, las reformas institucionales para la modernización del sector público, y el avance en el cumplimiento de las metas de paz y sus retos pendientes.

El Gobierno comprendió desde el principio que la modernización del sector público sería clave para el cumplimiento de los Acuerdos de Paz y de sus objetivos de desarrollo de largo plazo.

ii. El Acuerdo sobre Asuntos Socioeconómicos y Agrarios (SEA) estableció la base para la modernización del sector público y la reforma del gasto público. Adicionalmente a un marco socioeconómico sano, se requería de reformas para ampliar la base tributaria, reorientar el gasto hacia los sectores sociales y de infraestructura básica, reasignar el gasto público fuera de la Ciudad de Guatemala y en beneficio de las comunidades rurales pobres (mayormente indígenas) e incrementar la equidad y eficiencia en la provisión de servicios públicos.

Han habido avances considerables en varias áreas...

iii. Guatemala ha logrado considerables avances en la reorientación del gasto y en la mejora de la eficiencia del sector público. Estos esfuerzos han sido apoyados por medidas complementarias de reducción de la deuda interna y por el programa de privatización del Gobierno. Los avances han sido significativos en cuanto:

- ◆ al incremento del gasto público de acuerdo con las metas fijadas en los Acuerdos;
- ◆ a la mejora de la relación gasto de capital/corriente para revertir décadas de subinversión en la infraestructura básica y social;
- ◆ al incremento de la flexibilidad presupuestaria y la reorientación del gasto hacia sectores sociales prioritarios: el gasto social y de infraestructura básica representa actualmente el 70 por ciento del presupuesto y se focaliza en la educación pre-primaria y primaria, el uso de métodos preventivos y no curativos para la salud, la vivienda mínima e infraestructura rural;
- ◆ la delegación de la ejecución de la inversión social y de infraestructura básica a los fondos sociales y la subcontratación con el sector privado;
- ◆ al inicio de la desconcentración del gasto fuera de la Ciudad de Guatemala;
- ◆ a la implementación exitosa del manejo de desastres naturales, tales como el huracán Mitch; y
- ◆ al mayor esfuerzo de focalización de los recursos hacia grupos de mayor pobreza.

...las cuales necesitan ser sostenidas, pero la inestabilidad macroeconómica representa una amenaza más inmediata.

iv. Las reformas necesitan ser consolidadas y profundizadas, aunque se ha presentado un reto más inmediato debido al empeoramiento del entorno económico externo y el debilitamiento de los balances macroeconómicos fundamentales en 1999. La mayor vulnerabilidad es el resultado de una política fiscal debilitada durante el proceso electoral, de políticas monetarias erráticas e inapropiadas y de continuos fracasos en el fortalecimiento de la base tributaria. A su vez, estas condiciones están ligadas a las debilidades del sistema financiero y de la posición externa. La privatización ha alimentado una ilusión fiscal, contribuyendo al relajamiento de las políticas fiscales, mientras los pasivos fiscales contingentes han crecido a consecuencia de un sistema financiero en dificultades.

Una pre-condición para el sostenimiento de la paz es la reducción de la vulnerabilidad macroeconómica...

v. La necesidad de corregir los desbalances macroeconómicos que enfrentará la nueva Administración a principios del año 2000 amenaza con desviar la atención de los retos pendientes de la agenda de paz. Una de las prioridades a corto plazo es el fortalecimiento del manejo macroeconómico para reducir la posibilidad de una crisis gemela, cambiaria y financiera. Protegiendo en lo posible a los programas de paz durante la fase de ajuste, las políticas deberían pretender:

- ✓ reducir los déficit fiscales y de cuenta corriente externa a niveles sostenibles – aproximadamente 1 y 3 por ciento del PIB;
- ✓ mantener una política monetaria ajustada y estable, previniendo los amplios ciclos de expansión-contracción que han caracterizado a los mercados crediticios recientemente;
- ✓ reconstruir la posición de las reservas internacionales para respaldar plenamente la base monetaria;
- ✓ mantener una política de tipo de cambio efectivo real neutral; y
- ✓ reducir los pasivos fiscales contingentes y restablecer la confianza del público en la solvencia del sistema financiero mediante el fortalecimiento de las regulaciones del sistema financiero, incluyendo las recientes reformas a la ley de bancos y creación del seguro de depósitos, el cierre o fusión de las instituciones insolventes y el establecimiento de fondos presupuestarios contingentes manejados con criterios claros para proveer liquidez de emergencia.

...aunque también será esencial ampliar la base tributaria para la estabilidad macroeconómica y para financiar la paz...

vi. El doble reto de restablecer la estabilidad macroeconómica mientras se continúa con la agenda de paz, puede lograrse únicamente con el fortalecimiento de la base tributaria. Un fracaso clave en el proceso de paz ha sido la falta de avance significativo en el cumplimiento de la meta tributaria. La experiencia de Guatemala sugiere que la nueva Administración debería actuar rápida, enérgicamente y en consenso con el Pacto Fiscal en el campo de ingresos tributarios si ha de cumplir con la meta tributaria reprogramada. Lograr este objetivo requerirá de una combinación de incrementos en las tasas impositivas, una reducción de las exenciones tributarias, una administración más efectiva por parte de la Superintendencia de Administración Tributaria (SAT), una reforma del código tributario y de los procedimientos judiciales que tienen que ver con los casos de evasión impositiva, y la total erradicación de las amnistías tributarias.

...además de reformas adicionales del gasto.

vii. El avance de la reforma del gasto público ha sido substancial. Este logro debe ser sostenido y profundizado, especialmente para:

- ✓ mantener, a un nivel macro, un coeficiente mínimo (r) de gasto de capital con respecto a gasto corriente de 0.55; lo cual a corto plazo requeriría de un estricto control del empleo del sector público, exceptuando al sector educación ya que requiere más maestros para cumplir con los compromisos de paz. Asimismo, a un nivel micro, se necesita una evaluación del coeficiente r sectorial apropiado para los proyectos nuevos y existentes, cuestionando aquellos que no lo satisfacen;
- ✓ destinar por lo menos 75 por ciento del gasto a la infraestructura básica y social;
- ✓ utilizar los recursos futuros de privatización para, primero, cancelar la deuda pública (bonos) de corto plazo (de menos de 6 meses) y/o los bonos indexados al dólar (de menos de 1 año) en su totalidad y, segundo, para crear un fondo fideicomiso (similar a Panamá), cuyos intereses financiarían programas de desarrollo de largo plazo con rendimientos económicos y sociales significativos y, de esa manera, prevenir choques de liquidez en el mercado cambiario;
- ✓ aumentar la relación deuda externa/interna a 2/1, mientras se reduce el tamaño y se amplían los plazos de la deuda interna;
- ✓ aprovechar las herramientas del SIAF-SAG para mejorar la reorientación del gasto hacia los más pobres; considerando establecer metas mínimas de gasto sujetas a monitoreo, tales como: 60 por ciento del gasto del Gobierno Central asignado fuera de la capital y 50 por ciento del gasto de los fondos sociales hacia las regiones, departamentos, municipalidades y localidades más pobres; y
- ✓ considerar la eliminación o fusión de los fondos sociales de bajo rendimiento – exceptuando los tres más grandes, FIS, FONAPAZ, FSDC y tal vez, FOGUAVI y mejorar su grado de coordinación y especialización por área y regiones.

La modernización de la administración financiera a través del Sistema Integrado de Administración Financiera-Auditoría Gubernamental (SIAF-SAG) ha mejorado significativamente la provisión de servicios públicos.

viii. El objetivo de la modernización del sector público ha sido mejorar su capacidad de proveer servicios públicos en el combate a la pobreza y la mejoría de las condiciones sociales. El Gobierno comprendió que sus esfuerzos tenían que empezar con la forma en que manejaba sus propias finanzas. Por ello, adoptó un sistema integrado de administración financiera, no sólo para mejorar su eficacia y eficiencia, sino también su transparencia. Después de tres años de implementación, los logros son notables e incluyen:

- ◆ la creación de un centro integrado de funciones básicas de una administración financiera: presupuesto, contabilidad, tesorería, auditoría y adquisiciones;
- ◆ un sistema contable presupuestario común en todos los ministerios e instituciones públicas;
- ◆ un sistema contable centralizado – en base a efectivo y devengamiento – de acceso virtual apoyado por fibra óptica y compatibilidad Y2K;
- ◆ el uso de transferencias electrónicas de recursos para más del 50 por ciento de los pagos del sector público, incluyendo la nómina salarial, eliminando así significativamente el uso de cheques;
- ◆ procedimientos de pago más expeditos y transparentes, reduciendo así los pasos a seguir, y el tiempo y costo de las transacciones;
- ◆ la creación de una base de datos única para toda transacción financiera, con acceso de internet abierto a todo el público;

- ◆ la creación de nuevos procesos de auditoría y reducción de prácticas que permitían altos índices de corrupción (es decir, cuentas múltiples, pagos discrecionales, proveedores fantasma y precios con primas por pago tardío);
- ◆ un sistema de adquisiciones nuevo y transparente que conduce a una reducción significativa de los precios pagados a los proveedores;
- ◆ la eliminación de atrasos (deuda flotante) en el plazo de pago a proveedores y de carestía de fondos de contrapartida para proyectos externos;
- ◆ el seguimiento a diario del manejo presupuestario por parte de los ministerios;
- ◆ incrementos significativos en el porcentaje de ejecución presupuestaria anual por parte de los ministerios: de menos del 50 por ciento a principios de los 1990s, a más del 90 por ciento actualmente;
- ◆ mejoras en la planificación presupuestaria y manejo de efectivo trimestrales;
- ◆ la duplicación de los desembolsos de préstamos externos entre 1997 y 1998; y
- ◆ la reducción a la mitad del tiempo requerido por el Congreso para el procesamiento y aprobación de préstamos externos.

...pero el nuevo sistema debe ser consolidado y sostenido.

ix. El SIAF-SAG ha tenido un comienzo prometedor, pero aún se requiere de un esfuerzo importante para garantizar su consolidación y ampliación, así como el fortalecimiento de su marco legal e institucional. Los esfuerzos pendientes requieren:

- ✓ su ampliación horizontal para integrar a todos los ministerios, fondos sociales y mayoría de las municipalidades; algunos fondos sociales siguen estando fuera del control presupuestario y de auditoría por el Contralor;
- ✓ la creación de una unidad de administración de deuda pública externa e interna en el Ministerio de Finanzas, la cual debería absorber a la CIACI y la cooperación externa;
- ✓ la integración del Sistema de Información Geográfica (SIG) de SEGEPLAN al SIAF, para así contar con una herramienta única y actualizada de planificación y monitoreo de la inversión pública;
- ✓ el desarrollo de un Programa de Gasto Público a Mediano Plazo y la adopción del Código de Buenas Prácticas y Transparencia Fiscal del FMI, incluyendo las nuevas disposiciones contables y presupuestarias relativas al manejo de los pasivos fiscales contingentes;
- ✓ el apoyo a la modernización y autonomía de la Contraloría General de Cuentas;
- ✓ el fortalecimiento de la base legal del sistema, por medio de la aprobación de las leyes del SIAF, de la Contraloría General de Cuentas, de adquisiciones públicas y de probidad administrativa; y
- ✓ la preservación de un equipo técnico nacional fuerte y profesional, mientras se amplía la capacidad local para el uso del sistema, promoviendo inclusive la capacitación en el SIAF por las instituciones públicas, asociaciones profesionales y universidades.

El servicio civil ha sido el eslabón perdido de la reforma del sector público...

x. Aunque la reforma del servicio civil es una prioridad dentro de los Acuerdos de Paz, y es crítica para el sostenimiento de la modernización del sector público en el mediano plazo, el Gobierno no ha podido llevarla a cabo. Sin embargo, tomó algunas medidas para reestructurar el empleo y los salarios del sector público de acuerdo con las prioridades de paz. El resultado de estas medidas fue:

- ◆ la significativa reestructuración del empleo del sector público, con la significativa reducción de personal en tres ministerios – Comunicaciones y Transporte, Agricultura y Finanzas – compensada por su incremento en dos ministerios vinculados a los acuerdos de paz: Educación y Gobernación.
- ◆ la reducción del empleo público en empresas asociadas al proceso de privatización.

- ◆ una leve baja de la nómina salarial como proporción del gasto corriente, lo cual podría indicar alguna mejora en la eficiencia del sector público. Sin embargo, es difícil confirmarla debido a información inconsistente e incompleta respecto del empleo total del sector público y de los programas de jubilación voluntaria.
- ◆ la mejora de salarios y beneficios para el personal de la SAT y nueva Policía Nacional, aunque siguen habiendo inconsistencias entre los salarios del sector público y los del sector privado, particularmente en los puestos altos.
- ◆ el incremento de la movilidad laboral en los niveles profesionales y gerenciales debido a la multiplicación de contratos 029 (temporales).

...y debe ser tratado de forma integral.

xi. Estas medidas limitadas y ad hoc parecen haber contribuido a la mejora en la eficiencia y flexibilidad del sector público, pero deben ser reforzadas como parte de un esfuerzo más integral y de largo plazo de reforma del servicio civil. El éxito de la modernización del sector público debe ser acompañado de un servicio civil moderno, eficiente y basado en mérito. La agenda mínima de reforma del servicio civil tendría que considerar:

- ✓ prontas acciones para la cancelación automática de posiciones vacantes, tan pronto sean completadas las indemnizaciones de los trabajadores recientemente despedidos que aún están en la nómina;
- ✓ enmiendas a la ley de servicio civil para crear una nueva carrera de servicio civil, reformando el sistema de salarios del sector público, redefiniendo el papel de los sindicatos y modernizando los procedimientos para tratar las disputas laborales, limitando así apelar a los tribunales laborales;
- ✓ la transformación de la Junta Nacional del Servicio Civil a una Comisión del Servicio Civil independiente, y el establecimiento de nuevos procedimientos para el reclutamiento, contratación, promoción y capacitación del empleado público;
- ✓ la limitación de las funciones de ONSEC a un papel normativo;
- ✓ la no-definición de una estructura de salario única para puestos profesionales y de alta capacitación, más bien promover una estructura flexible adaptada a los ministerios e instituciones reestructurados;
- ✓ el establecimiento de topes en la utilización de contratos 029 por ministerio para impedir abusos y promover la descentralización; y
- ✓ la evaluación del impacto fiscal de la reforma del servicio civil, incluyendo una nueva estructura de salarios y beneficios, necesidades de capacitación y esquemas unificados de pago de indemnizaciones.

Se han visto adelantos en el esfuerzo de descentralización del Gobierno, por medio de la desconcentración de funciones y, particularmente, en el incremento de las transferencias y autonomía financiera de las municipalidades...

xii. Conforme fue avanzando el proceso de paz, se vió la descentralización como un medio natural para ampliar la cobertura, mejorar los objetivos y reducir la concentración del gasto en las áreas urbanas, especialmente la capital. Aunque el Gobierno no haya establecido claramente una estrategia de descentralización, sus esfuerzos se han enfocado en la desconcentración de ciertas funciones y el fortalecimiento de la autonomía financiera de las municipalidades. El esfuerzo de desconcentración se dió en algunos programas piloto de ciertos ministerios, la transferencia de la ejecución de la inversión pública a los fondos sociales, la descentralización de los programas de educación (PRONADE) y salud (IAHS), y la puesta en marcha de programas piloto para el mantenimiento de caminos rurales por ciertas municipalidades. Ha habido un avance sustancial en la descentralización. Como resultado:

- ◆ el Gobierno cumplió con la transferencia oportuna del 10 por ciento de los ingresos generales a las municipalidades;
- ◆ las municipalidades se han vuelto importantes inversionistas en los sectores sociales (1 por ciento del PIB), lo cual alcanzaría un nivel muy similar a la inversión de los fondos sociales en 1999;
- ◆ las municipalidades están comenzando a jugar un papel activo en los consejos de desarrollo regional;
- ◆ el número de municipalidades que actualmente administran sus propios recursos se incrementó de 10 en 1995 a 52 en 1999, triplicando estas sus ingresos recibidos durante los últimos tres años; y
- ◆ los proyectos piloto de desarrollo local, tales como DECOPAZ apoyado por el BID en Huehuetenango y el Proyecto de Desarrollo Local—PDL—apoyado por el Banco Mundial en San Marcos, representan nuevos enfoques para mejorar la participación de las comunidades locales, siguiendo una nueva matriz de colaboración inter-gubernamental.

...pero se requiere de una estrategia de descentralización a más largo plazo.

xiii. Los gobiernos municipales seguirán siendo protagonistas de los esfuerzos del Gobierno para ampliar la cobertura y cumplir con las necesidades de las comunidades locales. Sin embargo, existe la necesidad de establecer claramente una estrategia de descentralización global la cual, además de una ampliada desconcentración ministerial y descentralización de la provisión de servicios públicos, debería al menos considerar:

- ✓ la simplificación de la estructura tributaria municipal, reemplazando alrededor de 150 impuestos obsoletos sobre el consumo y 80 ingresos no-tributarios por una estructura más simple, sólo manteniendo un número muy reducido de aquellos impuestos de ingreso tributario significativo;
- ✓ la aprobación de un nuevo Código Municipal y de un marco legal para los Consejos de Desarrollo requeridos en los Acuerdos de Paz; los cuales, mientras se aprueba la autonomía municipal, deberían requerir la adopción de normas financieras compatibles con el SIAF-SAG en cuanto a contabilidad, presupuesto, administración de efectivo y auditoría;
- ✓ capacitación intensiva para mejorar la capacidad administrativa y financiera de las municipalidades, incluyendo como meta la adopción de la normativa del SIAF-SAG en dos terceras partes de las municipalidades para el 2003;
- ✓ la regulación de las condiciones bajo las cuales las municipalidades podrían acceder a los mercados de crédito comercial y préstamos externos; y
- ✓ basado en las lecciones de los proyectos piloto de desarrollo local, la promoción de una nueva matriz de transferencias inter-gubernamentales, la cual debería especificar una clara división de trabajo, los mecanismos de cooperación de los donantes, las responsabilidades de las comunidades locales, municipalidades y Gobierno Central en cuanto a la movilización de recursos locales, los criterios de sostenibilidad de los proyectos y su eventual absorción por programas basados en la comunidad, los cuales estarían siendo financiados externamente en sus inicios.

Las reformas al sector público están contribuyendo al fortalecimiento de la transparencia, aunque las reformas de segunda generación deberían asignarle prioridad a la mejora de la gobernabilidad.

xiv. Una buena gobernabilidad es esencial para mejorar la provisión de servicios públicos y su efectividad en el desarrollo a largo plazo. Muchas de las reformas mencionadas en este informe están ayudando a mejorarla, aunque una agenda más desarrollada debería estar en el centro de los futuros esfuerzos. Mejorar la gobernabilidad representa una tarea compleja y de largo plazo, la cual debe ajustarse a las circunstancias individuales del país. Las reformas encaminadas y aquellas planificadas contribuirán significativamente a mejorarla, aunque su agenda de largo plazo también debería considerar: la implementación del programa integral en marcha de reforma judicial, la desregulación, el incremento de la transparencia en la concesión de actividades privatizadas, el fortalecimiento de la capacidad y

autonomía de las entidades reguladoras de los sectores afectados por la privatización, la elaboración y cumplimiento de códigos de conducta para funcionarios públicos, la incidencia de la sociedad civil en la preparación y monitoreo de los programas de gobernabilidad y anti-corrupción en el marco de un Plan de Integridad Nacional.

El Acuerdo Socioeconómico de Paz de Guatemala contiene objetivos fiscales muy específicos...

xv. El Acuerdo SEA contiene la mayoría de las metas monitoreables de los acuerdos de Paz, las cuales permiten dar seguimiento al avance gradual hacia el logro de objetivos individuales. El Acuerdo establece metas fiscales y sociales, y estas conllevan metas intermedias, las cuales previenen a las Autoridades sobre posibles desviaciones y la necesidad de tomar acciones correctivas y/o de reprogramarlas. Los objetivos socioeconómicos son ambiciosos en el entorno guatemalteco, pero en la mayoría de los casos son modestos si se les compara con los promedios latinoamericanos.

...y, aunque han habido claros avances, su desempeño general ha sido ambiguo. Exceptuando a la meta de ingresos tributarios, han habido adelantos positivos en el plano fiscal...

xvi. El objetivo de los Acuerdos era un crecimiento del 6 por ciento. La economía estaba encaminada a alcanzar este objetivo durante la primera mitad de 1998, pero el crecimiento desaceleró debido a condiciones externas adversas, a Mitch, a una severa contracción crediticia que vino como consecuencia de políticas fiscales y monetarias expansivas, y a las dificultades en el sistema financiero y cambiario. Las metas de gasto han sido mayormente cumplidas, pero existe un serio retraso en cuanto a la de ingresos. El Gobierno no ha podido cumplir con las metas impositivas y aún su reciente reprogramación hasta el 2002 será difícil de cumplir, a menos que la nueva Administración tome acciones inmediatas. Los objetivos de gasto en educación, salud, justicia, militar y de seguridad pública, vivienda mínima, desarrollo rural e infraestructura fueron cumplidos, y la meta de salud preventiva estaba encaminada para lograrse en 1999.

...y algún avance de las metas sociales, aunque con mucho retraso.

xvii. Aunque los avances sean evidentes, el desempeño en el logro de las metas sociales ha sido menos que satisfactorio. Los retrasos son significativos y en la mayoría de los casos requerirán probablemente ser reprogramados por varios años o sustituidos por otro indicador:

- ◆ el programa de alfabetización CONALFA aumentó la alfabetización de un 64.2 por ciento en 1994 a un 67.4 por ciento en 1998, muy cerca de la meta de paz del 70 por ciento;
- ◆ como resultado de PRONADE (el programa escolar de participación comunitaria rural), la cobertura total de 3 años de educación primaria aumentó de aproximadamente 84 por ciento en 1996 a 89 por ciento en 1998, pero seguramente no alcanzará la meta del 100 por ciento para 1999;
- ◆ la mortalidad infantil se redujo debido al éxito del programa del Sistema de Atención Integrada a la Salud (IAHS) – de 39.9/000 en 1995 a 37/000 en 1997 y debería alcanzar 32/000 en el 2000; y aunque sea una mejora significativa, no logrará alcanzar la meta de paz de 20/000;
- ◆ no existe información confiable para estimar las tendencias de mortalidad materna y, por lo tanto, el cumplimiento de la meta de paz. Los estimados existentes oscilan de menos de 100 a casi 200 muertes por cada 100,000 nacimientos vivos, y el subregistro representa un impedimento para el monitoreo adecuado de este indicador; y
- ◆ pese a que no se han reportado casos de polio y apenas unos cuantos casos de sarampión han sido reportados en Guatemala desde 1995, queda pendiente una certificación internacional: la cobertura de la inmunización de polio y sarampión llegó a 88 y 79 por ciento en 1998; mientras que la certificación internacional requiere que sea de 85 y 95 por ciento.

Esto requerirá la reprogramación de las metas...

xviii. Debido al progreso ambiguo hacia el logro de las metas socioeconómicas de paz, es inevitable considerar su reprogramación, eliminación o sustitución. Para lograrlo, será importante restablecer metas realistas, garantizando la continuidad en los adelantos importantes logrados a la fecha. Las siguientes son opciones que deberían ser consideradas:

- ✓ La meta de carga tributaria ha sido reprogramada para el 2002, pero aún esto parece ser difícil de alcanzar a menos que la nueva Administración actúe con rapidez para alcanzar los 3 puntos porcentuales del PIB requeridos aún para llenar la brecha. En coherencia con el Pacto Fiscal, las medidas a ser consideradas debiesen incluir: el incremento de la tasa del IVA a niveles centroamericanos (con un rendimiento estimado de 1 por ciento del PIB), la eliminación de exenciones impositivas (0.5 por ciento del PIB), ingresos adicionales acumulados por mejoras esperadas en la recaudación por la SAT (0.5 por ciento del PIB) y otras modificaciones de tasas impositivas equivalentes a aproximadamente un 0.5 por ciento del PIB.
- ✓ La reprogramación de un año para completar la meta de alfabetización, según la actual tasa de promoción, y siempre y cuando CONALFA cumpliera con sus proyecciones de registro de analfabetos, incrementase su tasa de aprobación estudiantil y asegurase los fondos necesarios.
- ✓ Pareciese ser necesaria una reprogramación de siete años de la meta de tres años para la cobertura de educación primaria. Alcanzar la meta del 100 por ciento para el año 2006 requerirá un mayor esfuerzo, incluyendo la absorción de un mínimo de 75,000 nuevos estudiantes anuales en los programas de PRONADE y de Ciclo Vespertino (manteniendo constantes las tasas de inscripción del sistema tradicional), una leve mejora en cuanto a las tasas de promoción, repetición y abandono, la construcción de 1531 escuelas adicionales y un incremento de aproximadamente US\$23.4 millones para el presupuesto anual de educación.
- ✓ También pareciese ser necesaria una reprogramación de siete años de la tasa de mortalidad infantil debido a su tendencia actual, ya que el esfuerzo requerido para disminuir esta tasa se torna difícil más a medida que se pretende alcanzar cifras de un dígito. Alcanzar esta meta para el año 2006 implica que el IAHS: continúe ampliando su cobertura en 100,000 nuevos beneficiarios anuales, que se cumpla la relación salud preventiva/curativa de la meta de paz, que se extienda el apoyo de las ONGs y que el presupuesto anual de salud se incremente con aproximadamente US\$4.4 millones.
- ✓ La meta de mortalidad materna debería ser eliminada ya que los problemas relacionados con la información pertinente no permiten su monitoreo en forma constante y confiable.
- ✓ Las metas de erradicación de la polio y del sarampión deberían ser reemplazadas por metas de cobertura de inmunización. Ya se cumplió con la meta de cobertura de polio del 85 por ciento de los niños menores de 5 años en 1998 y se considera la de cobertura de sarampión del 95 por ciento de los niños menores de 1 año es alcanzable, pero en el año 2002.

...considerando también la introducción de una serie de indicadores complementarios de evaluación del desempeño...

xix. El monitoreo de la implementación de la paz y su impacto en el bienestar social se verían beneficiados por la inclusión de una serie pequeña y bien seleccionada de indicadores complementarios, poniendo especial atención no solamente al acceso, sino también a la calidad, eficiencia y objetividad. En educación incluirían: las tasas de promoción de CONALFA, las inscripciones de PRONADE, el número de escuelas bilingües, las tasas de abandono escolar, de repetición y de promoción, y la relación estudiantes/maestro(a) en educación primaria. En salud incluirían: el número de puestos de salud del IAHS, el número de proyectos para agua, saneamiento y nutrición, la cobertura de la inmunización y los casos de enfermedades perinatales y transmisibles en la mortalidad infantil.

...y otros compromisos de política.

xx. Garantizar que habrá mejoras sostenidas en cuanto a bienestar social es claramente más complejo que sólo cumplir con las metas. Para lograrlo, es crítico mantener los esfuerzos y evitar retroceder ante los limitados logros. Posibles nuevas prioridades deberían ser:

- ✓ la ampliación de la cobertura de PRONADE y del IAHS y la mejora de la calidad educativa (mejorando las tasas de abandono, repetición y promoción escolares), el incremento del número de escuelas rurales en áreas indígenas más que en áreas urbanas, y el continuo incremento selectivo de la asignación de materiales de enseñanza y de provisiones médicas;
- ✓ debido a la alta concentración de baja cobertura educativa/analfabetismo y de mortalidad infantil/materna en una tercera parte de todos los departamentos, la focalización de las inversiones de PRONADE e IAHS en tales departamentos;
- ✓ el cambio del enfoque de CONALFA hacia la alfabetización post-adulto, para mejorar su tasa de promoción actual;
- ✓ el continuo incremento del gasto de salud para lograr alcanzar una relación 3/2 entre salud preventiva/curativa, aumentar el número de proyectos rurales de agua, saneamiento y nutrición;
- ✓ la integración del gasto de los fondos sociales y de las municipales al SIAF-SAG para garantizar su monitoreo, eficacia y transparencia; y
- ✓ el fortalecimiento de la calidad de la información socioeconómica basado en el ejercicio integral en marcha de medición de niveles de vida 2000-2003 (según el programa MECOVI) para evaluar las tendencias de la pobreza, analizar el impacto de la reforma del gasto y apoyar la coordinación interministerial y entre los donantes.

En conclusión...

xxi. Guatemala ha logrado adelantos significativos en la implementación de los compromisos de paz. Si bien quedan brechas significativas, la reforma del gasto público proporciona una base sólida para apoyar una segunda generación de cambios; los cuales pueden consolidar los avances y apoyar una bien justificada reprogramación de las metas de paz más importantes. El serio compromiso adoptado por el Gobierno entrante con la profundización del Proceso de Paz y la modernización del sector público será clave para llevar adelante con éxito estos esfuerzos.

EXECUTIVE SUMMARY

The signing of peace in 1996, provided Guatemala with a unique opportunity to redefine its development agenda, but also posed a major challenge to modernize its public sector.

i. When the final Peace Accords were signed in December 1996, Guatemala had a unique opportunity to reverse a long-standing development pattern that had led to widespread poverty and the exclusion of large segments of its population. The Peace Accords aimed not only to end the armed conflict but also, and more fundamentally, to redefine the country's economic and social development agenda. Underlying the Peace Accords is a vision of a more prosperous, inclusive and egalitarian society. At the same time, the Government realized it faced a formidable challenge in implementing the Peace Accords and turning this vision into reality. The Government's 1996-2000 Economic and Social Program articulated a strategy for faster growth and reduced poverty, in line with the Peace Accords. Sustaining peace and accelerating growth would require a sound macroeconomic framework, the financing of peace programs within a prudent fiscal stance, redefining the relationship between the private and public sectors to support private sector-led growth, and a comprehensive restructuring and modernization of Guatemala's public sector. This report, the third in a series that has accompanied the peace process, analyzes the macroeconomic framework, progress in restructuring public expenditure patterns, institutional reforms to modernize the public sector, progress in meeting peace targets and the remaining reform challenges.

The Government realized at the outset that public sector modernization would be key to the fulfillment of the Peace Accords and the attainment of its longer-term development goals.

ii. The Socioeconomic and Agrarian Issues (SEA) Accord provided the underlying rationale for public sector modernization and expenditure reform. In addition to a sound macroeconomic framework, reforms were needed to expand the tax base, shift expenditures toward previously-neglected social and basic infrastructure sectors, reallocate public spending away from Guatemala City to increasingly benefit rural (mostly indigenous) poor communities, and enhance the equity and efficiency of public service delivery.

There has been considerable progress in a number of areas...

iii. Guatemala has made considerable progress in reforming public expenditure patterns and improving the internal efficiency of the public sector. These efforts have been helped by complementary measures to reduce domestic public debt and progress in the Government's privatization program. Progress has been strong in terms of:

- ◆ increasing public spending in line with the social and economic targets agreed in the Accords;
- ◆ improving the capital/current expenditure mix to reverse decades of underinvestment in basic infrastructure and social services;
- ◆ increasing budgetary flexibility and shifting spending toward priority social and basic infrastructure sectors; social and basic infrastructure spending now accounts for about 70 percent of the budget, with priority assigned to: pre-primary and primary education, preventive rather than curative health, low-income housing and rural infrastructure;
- ◆ delegating execution of social and basic infrastructure investments to the social funds and sub-contracting schemes with the private sector;
- ◆ beginning the process of shifting resources outside of Guatemala City;
- ◆ successfully implementing disaster management, like the Mitch Emergency Plan; and
- ◆ making efforts to improve targeting on the poor.

...which needs to be sustained, but macroeconomic instability poses a more immediate threat.

iv. Reforms need to be consolidated and deepened, but a more immediate challenge has emerged due to the recent downturn in the external economic environment and the weakening of macroeconomic fundamentals. Increased macroeconomic vulnerability is largely the result of more lax fiscal policy in the lead up to the national elections, erratic and inappropriate monetary policies, and the continuing failure to strengthen the tax base. These conditions, in turn, are linked to weaknesses in the financial system and the country's external position. Privatization appears to have fed fiscal illusion, contributing to a relaxation of fiscal policies, while the public sector's contingent liabilities are growing due to a weakening financial system.

A pre-condition for sustained peace is to reduce macroeconomic vulnerability...

v. The need to correct macroeconomic imbalances, which will face the new Administration in early 2000, risks diverting attention from the remaining challenges in the peace agenda. A top priority over the short term should be to strengthen macroeconomic management in order to reduce the scope for a dual, currency and banking crisis. While attempting to protect, as far as possible, priority peace programs during the adjustment phase, economic policies should aim to:

- ✓ reduce the fiscal and ensuing external current account deficits to sustainable levels—to about 1 and 3 percent of GDP, respectively;
- ✓ maintain a tight and stable monetary policy, avoiding the boom-bust cycles that have characterized credit markets recently;
- ✓ rebuild foreign exchange reserves to cover the monetary base;
- ✓ maintain an effective neutral real exchange rate policy; and
- ✓ reduce contingent liabilities by strengthening prudential regulations in the financial system, including implementing the recently-approved reforms of the banking law, closing or merging insolvent institutions, and considering the establishment of budget contingent sources of liquidity to rebuild public confidence in the solvency of the financial system.

...but widening the tax base will also be essential for macroeconomic stability and to finance peace...

vi. The dual challenge of regaining macroeconomic stability while advancing on the peace agenda can only be met by strengthening the tax base. A key failure in the peace process has been the significant lack of progress in meeting the Peace Accord target on the tax revenue ratio. Guatemala's recent experience suggests that the new Administration should act early and forcefully on the tax revenue front if it is to meet the rescheduled Peace Accord revenue target in line with the consensus being built by the National Fiscal Pact. Meeting this objective will require increases in tax rates, a reduction of tax exemptions, a more effective tax administration by the SAT, reform of the tax code and judicial procedures dealing with tax evasion cases, and full eradication of tax amnesties.

...as well as further expenditure reforms.

vii. Progress in expenditure reform has been substantial. This progress needs to be sustained and deepened, especially aiming to:

- ✓ at the macro level, maintain a minimum ratio (r) of capital to current expenditure of 0.55, which in the short term would require tight control over public sector employment, except in the education sector where additional teachers are needed to meet peace commitments; and at the micro level, evaluate the r coefficient of existing and new projects, weeding out unproductive ones;
- ✓ target a minimum of 75 percent of budget spending on social and basic infrastructure;
- ✓ use future privatization proceeds to, first, fully repay short-term (less than 6-months) and/or dollar-indexed (less than 1 year) bonds gradually so as to prevent liquidity shocks and, second, consider the

- creation of a special fund whose interest would finance long-term development programs with high economic or social returns (as in Panama);
- ✓ shift the mix of external-to-domestic debt to a 2/1 ratio, while reducing the level and lengthening the maturity of domestic debt;
 - ✓ take advantage of the IFMS and GIS tools to enhance expenditure targeting on the poorest; consider setting minimum spending targets, subject to monitoring, such as: 60 percent of Central Government spending allocated outside the capital, and 50 percent of spending by the social funds on the poorest regions, departments, municipalities and localities; and
 - ✓ consider the elimination or merger of low-performing social funds—other than the three big ones FIS, FONAPAZ, FSDC and, perhaps, FOGUAVI—and improve coordination and specialization among the remaining funds.

Modernization of financial management through the Integrated Financial Management System (IFMS) has significantly improved service delivery...

viii. The aim of public sector modernization has been to enhance its public service delivery capacity, with a focus on alleviating poverty and improving social conditions. The Government realized early on that its efforts to modernize the public sector needed to start by improving the way the public sector manages its own finances. Thus, at the core of the Government's modernization effort is the adoption of an integrated financial management system, not only to increase the efficiency of financial management but also to improve accountability. After three years of implementation, the achievements are impressive and include:

- ◆ creation of an integrated core of basic and expandable financial management functions: budgeting, accounting, cash management, auditing and procurement;
- ◆ a common budgetary accounting framework across all ministries and public institutions;
- ◆ a centralized accounting system—on cash and accrual basis—with fiber optic-supported virtual access and Y2K-compatibility;
- ◆ the use of electronic fund transfers for more than 50 percent of public sector payments, including the wage bill, thus significantly eliminating the use of checks;
- ◆ shorter and more transparent payment procedures leading to reduced steps, time and transaction costs;
- ◆ the creation of a unique database for all financial transactions, with Internet access open to the public;
- ◆ the creation of audit trails and the reduction of practices with high corruption potential (i.e., multiple accounts, discretionary payments, phantom suppliers, and premium prices for late payments);
- ◆ a transparent new procurement system leading to significant reduction of prices paid for supplies;
- ◆ elimination of arrears (floating debt) to domestic suppliers and shortages of project counterpart funds;
- ◆ full appropriation by ministries of their approved budget on a daily basis;
- ◆ marked increases in annual budget execution by ministries from under 50 percent in the early 1990s to over 90 percent at present;
- ◆ improvements in quarterly budget planning and cash-management;
- ◆ the doubling of external loan disbursements between 1997 and 1998; and
- ◆ the halving of the time required for loan processing and approval by Congress.

...but the new system must be consolidated and sustained.

ix. The IFMS has made a promising start but a continued effort is required to ensure it becomes sustainable, especially in terms of consolidating and extending it further, and strengthening its underlying legal and institutional framework. Over the medium term, efforts need to focus on:

- ✓ expanding horizontally to integrate all ministries, social funds and most municipalities, which remain outside the budgetary and the Comptroller's auditing process;
- ✓ creating an external and domestic public debt management unit at MIFIN, which should absorb CIACI and External Financing;

- ✓ integrating SEGEPLAN's GIS to the IFMS software system, so as to have a single and coherent public investment planning and monitoring tool;
- ✓ developing a Medium-Term Expenditure Framework and adopting the IMF Code on Good Practices and Fiscal Transparency, including full accounting and budgetary provisions for contingent liabilities;
- ✓ supporting the modernization and autonomy of the Comptroller General's Office;
- ✓ strengthening the system's legal base, through approval of laws on the IFMS, the Comptroller General's Office, public procurement and administrative probity; and
- ✓ maintaining a strong and professional national team, while strengthening domestic capacity to run the system by promoting training in public institutions, professional associations and universities.

Civil service has been the missing link in public sector reform...

x. Although civil service reform is a key priority in the Peace Accords, and is critical to sustain economic modernization and expenditure reform in the medium-term, the Government has been unable to carry out a comprehensive reform in this area. While comprehensive civil service reform is pending, the Government was able to take discrete measures to restructure public employment in line with peace priorities. These measures have resulted in:

- ◆ a significant internal restructuring of public employment, with staff reductions in three ministries—Transport and Communications, Agriculture and Finance—offset by increases in two ministries mandated by the peace accords, Education and Governance;
- ◆ a reduction in overall public sector employment as a result of the privatization process;
- ◆ a slight decrease in the wage bill as a proportion of current expenditures, which may signal some improvement in public sector efficiency which, however, is difficult to confirm due to inconsistent and incomplete data on total public sector employment and the voluntary retirement programs;
- ◆ improved salaries and benefits for staff in the new SAT and National Police, although significant gaps remain between private and public sector wages, especially for top categories; and
- ◆ increased labor mobility in the professional and upper managerial levels due to the expansion of 029 (temporary) contracts.

...and needs to be approached in a comprehensive way.

xi. These limited and *ad hoc* reforms appear to have contributed to improved efficiency and flexibility in the public sector, but they need to be reinforced as part of a broader and longer-term effort to reform the civil service. The success of public sector modernization and expenditure reforms is placing additional demands on the civil service, and they will be difficult to sustain unless they are accompanied and reinforced by a modern, efficient and merit-based civil service. A civil service reform agenda would need to consider:

- ✓ early actions to cancel vacancies automatically, once severance benefits for retired workers still on the payroll are completed;
- ✓ amending the civil service law to create a new civil service career path, reforming the public sector salary system, redefining the role of unions, and streamlining procedures to handle labor disputes, limiting appeals to the labor courts;
- ✓ transforming the *Junta Nacional del Servicio Civil* into an independent Civil Service Commission, and setting new procedures for recruiting, hiring, promotions and training;
- ✓ limiting ONSEC's function to a normative role;
- ✓ not defining a single salary structure for professional and high-skilled categories, but rather one tailored to restructured ministries and institutions;
- ✓ setting ceilings on 029 contracts by ministry, to prevent abuses and promote decentralization; and
- ✓ assessing the fiscal impact of comprehensive civil service reform, including the new salary and benefits structure, training needs and unified severance payments schemes.

The Government has made progress in its decentralization effort, through some deconcentration of functions and especially in increasing the transfers and financial autonomy of municipalities...

xii. As the peace process advanced, decentralization was seen as a natural way to expand coverage, improve targeting and reduce the expenditure bias toward large urban areas, especially the capital. Although the Government has not articulated a longer-term decentralization strategy, its decentralization efforts have focussed on deconcentrating selected public sector functions and strengthening the financial autonomy of municipalities. The Government has made only limited progress in deconcentration but substantial progress in transferring resources to the municipal level. The deconcentration effort has focussed on pilots in a few ministries, transfer of investment execution to the social funds, decentralized programs in education (PRONADE) and health (IAHS), and pilot programs to transfer responsibility for rural road maintenance to selected municipalities. There has been substantially more progress with general decentralization to municipalities. As a result:

- ◆ the Government has complied with the timely transfer of 10 percent of general revenues to the municipalities;
- ◆ municipalities have become major investors in the social sectors (1 percent of GDP), which is projected to be very close to investment by the social funds in 1999;
- ◆ municipalities are beginning to play an active role in the regional development councils;
- ◆ the number of municipalities now administering their own financial resources increased from 10 in 1995 to 52 in 1999, tripling the revenues they received in the past three years; and
- ◆ pilot local development projects, such as the IDB-supported DECOPAZ in Huehuetenango and the Bank-supported Local Development in San Marcos, are testing new approaches to enhance participation by local communities under a new matrix of inter-government collaborative efforts.

...but a longer-term decentralization strategy is needed.

xiii. Municipal governments will continue to play a leading role in Government efforts to expand coverage and meet the needs of local communities. There is a need, however, to articulate a comprehensive decentralization strategy which, in addition to further ministerial deconcentration and decentralization of specific service delivery schemes, should consider:

- ✓ rationalizing the municipal tax structure by replacing the 150 outdated excises and 80 non-tax revenues, by a simpler structure retaining a handful of the most revenue-significant taxes;
- ✓ approving a new Municipal Code and legal framework for Development Councils required by the Peace Accords, which while providing for municipal autonomy, should require IFMS financial standards in terms of accounting, budget, cash management and auditing;
- ✓ intensive training to improve the administrative and financial capacity of municipalities, including the application of IFMS standards in two-thirds of municipalities by 2003;
- ✓ regulating the conditions under which municipalities can access commercial credit markets and external borrowing; and
- ✓ based on the lessons of pilot local development projects, promoting a new matrix of inter-government transfers, which should specify a clear division of labor, donor coordination mechanisms, the responsibilities of local communities, municipalities and the Central Government in terms of mobilizing local resources, the sustainability of projects and the eventual absorption of community-based programs which are currently externally funded.

Public sector reforms are contributing to strengthen transparency and governance, but a set of second generation reforms should assign high priority to improved governance.

xiv. Good governance is essential to improve public service delivery and longer-term development effectiveness. Many of the reforms discussed in this report are helping to improve governance and transparency across Guatemala's public sector, but a full-fledged governance agenda should be at the core

of future reform efforts. Improving governance is a complex and long-term undertaking, which must be tailored to individual country circumstances. Reforms underway or planned will make important contributions to improved governance, but a longer-term agenda should also consider: implementing the comprehensive judicial reform program, deregulation, increased transparency in the regulation of privatized activities and the privatization process, strengthening the capacity and autonomy of regulatory and control agencies, development and enforcement of codes of conduct for public officials, the involvement of civil society in the preparation and monitoring of governance and anti-corruption plans, and the development of a national integrity plan.

Guatemala's Peace Accords contain very specific fiscal (input) and outcome targets...

xv. Most targets are contained in the SEA Accord and aim to keep track of gradual progress toward individual goals. They are divided into fiscal and social targets, and involve intermediate targets, which alert the Authorities to possible deviations, the need to take corrective actions or reschedule targets. The targets are ambitious by Guatemalan standards, but in most cases they are modest by Regional standards.

...and while there are clear improvements, overall performance has been mixed. With the exception of the tax ratio, there has been good progress on the fiscal side...

xvi. The Accords targeted economic growth of 6 percent. The economy was on track to meet this target during the first half of 1998, but growth has slowed due to adverse external conditions, Mitch, a severe credit crunch following lax monetary and fiscal policies, and difficulties in the domestic financial and exchange system. The fiscal spending targets have been largely met but there is a serious lag on the revenue side. The Government has been unable to comply with the tax target, and even its recent rescheduling to 2002 will be difficult to meet unless the new Administration moves quickly on the tax front. Spending targets in education, health, justice, military and public security, low-income housing, rural development and infrastructure were met, and the target on preventive care is on track for 1999. Targets in four areas were exceeded—military, public security, rural development and infrastructure.

...and some progress on social outcomes, but with considerable delays.

xvii. Although progress is clearly evident, performance in meeting social outcomes has been less than satisfactory. Deviations are significant and most are likely to require rescheduling, reprogramming or substitution by another indicator:

- ◆ the CONALFA literacy program has increased literacy from 64.2 percent in 1994 to 67.4 percent in 1998, close to the 70 percent peace target;
- ◆ as a result of PRONADE (the community participation school program), gross coverage of 3 years of primary education increased from about 84 percent in 1996 to 89 percent in 1998, but is likely to fall short of the 100 percent target by 1999;
- ◆ infant mortality is decreasing due to the success of the Integrated Attention to the Health System (IAHS) program—from 39.9/000 in 1995 to 37/000 in 1997 and should reach 32/000 in 2000; although a marked improvement, it will be short of the peace target (20/000);
- ◆ there are no reliable data to estimate trends in maternal mortality and hence fulfillment of the peace target—existing estimates range from under 100 to almost 200 deaths per 100,000 living births; under-reporting is a major constraint on monitoring this indicator; and
- ◆ no polio and only a few isolated measles cases have been reported in Guatemala since 1995, but international certification is pending; immunization coverage for polio and measles was 88 percent and 79 percent in 1998—international certification requires 85 and 95 percent.

This will require rescheduling or reprogramming key peace targets,...

xviii. Given the mixed performance in reaching peace targets, it becomes unavoidable to consider their rescheduling, elimination or substitution. In doing so, it will be important to set realistic and attainable goals to ensure that the important progress achieved to date is maintained. The following are possibilities and options that would need to be considered:

- ✓ the tax ratio target has been rescheduled for 2002 but even this appears difficult to attain unless the new Administration acts quickly to mobilize most of the approximately 3 percentage points of GDP required; measures to be considered would need to include: increasing the VAT rate toward Central American levels (13 percent), eliminating tax exemptions, additional revenues from SAT implementation, and other tax policy measures equivalent to about 0.5 percent of GDP.
- ✓ a one-year rescheduling of the literacy target is needed under the present promotion rate, provided CONALFA meets its projections for registration of illiterates, increases its student approval rate, and secures the necessary funding;
- ✓ a seven-year rescheduling of the target of three years of primary education coverage appears necessary; meeting the target of 100 percent coverage by 2006 will still require a major effort, including absorption of a minimum of 75,000 new students per year under the PRONADE and Afternoon-cycle programs (with enrollment rates in the traditional system remaining constant), some improvement in promotion, repetition and dropout rates, construction of 1,531 additional schools, and an education annual budget increase by a minimum of about US\$23.4 million;
- ✓ a seven-year rescheduling of the infant mortality rate also appears necessary given its present trend, since the effort required to decrease this rate becomes more difficult as it approaches single figures; meeting this target by 2006 implies that IAHS: continues expanding its coverage with 100,000 new beneficiaries per year, the peace target ratio for preventive/curative health is met, NGO support is expanded, and a health annual budget increase by a minimum of about US\$4.4 million;
- ✓ the maternal mortality rate should be eliminated since data problems prevent reliable monitoring; and
- ✓ poliomyelitis and measles eradication should be replaced by immunization coverage; the polio certification target of 85 percent coverage of children under 5 was met in 1998, whereas reaching the measles certification target of 95 percent of children under 1 would likely be reached in 2002.

...considering a complementary set of performance indicators...

xix. Monitoring peace implementation and its impact on welfare would benefit from a wider set of complementary indicators, paying particular attention not just to access, but also to quality, efficiency and targeting. These could include: in education, CONALFA promotion rates, PRONADE enrollments, number of bilingual schools, dropout, repetition and promotion rates, and student/teacher ratios in primary education; and in health, IAHS health posts, number of water and sanitation projects, nutrition interventions, immunization coverage and cases of perinatal/transmittable sicknesses in infant mortality.

...and other policy commitments.

xx. Meeting social outcome targets and ensuring that there are sustained improvements in welfare is clearly much more complex than meeting input targets (e.g., raising tax revenues, increasing health spending, etc.). Maintaining momentum and avoiding backtracking, even in the face of under-achievement, becomes critical, especially given that results have been mixed. Priorities should aim to:

- ✓ expand PRONADE and IAHS coverage, and improve education quality (reducing dropout and repetition rates), increasing the number of rural schools in indigenous areas faster than in urban areas, and increase allocations for teaching materials and medical supplies;
- ✓ given the high concentration of low education coverage/illiteracy and infant/maternal mortality in a third of all departments, target PRONADE and IAHS investments accordingly;
- ✓ change CONALFA's approach to post-adult literacy, to increase its present promotion rate;

- ✓ continue to raise health outlays toward 3/2 preventive/curative health ratio, rural water and sanitation projects and nutrition programs;
- ✓ integrate spending by social funds and municipalities in the IFMS to ensure monitoring and accountability; and
- ✓ strengthen data quality based on the upcoming LSMS 2000-2003 (under the MECOVI program), so as to track poverty trends, analyze the impact of expenditure reform and support donor coordination.

In conclusion...

xxi. Guatemala has made important progress in implementing peace commitments. Although some important shortcomings remain, public sector and expenditure reforms provide a solid foundation on which to base a second generation of reforms which can consolidate progress and support a reprogramming of major peace targets. Key to these efforts will be a strong commitment by the incoming Government to the peace process and the deepening of the public sector modernization and expenditure reform program.



INTRODUCTION

This report is the third in a series of joint Government-World Bank reviews designed to accompany and support Guatemala's peace process (*Guatemala: Building Peace with Rapid and Equitable Growth*, 1996, No. 15352-GU; and *Guatemala: Investing for Peace. A Public Investment Review*, 1997, No. 16392-GU). As this report was under preparation in late 1998, Guatemala faced an emergency caused by Hurricane Mitch and increasing macroeconomic pressures associated with expansionary monetary and fiscal policies. Macroeconomic conditions continued to weaken in 1999, exacerbated by a number of external shocks, inappropriate macro policies and a fragile financial system. The success of the privatization program, in turn fed fiscal illusion, which was especially hard to resist in an electoral year. The availability of relatively large privatization proceeds created a sense that the emerging macroeconomic imbalances could be tolerated, peace and electoral outlays could be financed without the need to adopt revenue measures, and that international reserves were adequate to defend the Quetzal and keep inflationary pressures under control.

By end-March, as the election campaign intensified, policy-makers debated the right policy response—stabilization vs. expansion. In the end, fears that rising interest rates (from tighter monetary policy) would feed a recession and weaken an already battered banking system, prevailed. On April 1999, the Government submitted to Congress a proposal for an extraordinary budget increase of Q3 billion financed with privatization proceeds. The proposed expansion would be equivalent to 2.2 percent of GDP and absorb almost three quarters of privatization proceeds. If fully implemented, it would lead to fiscal and external current account deficits close to 5 and 6.5 percent of GDP, respectively. Despite strong concerns from many quarters, Congress approved the Q3 billion budget increase. Although the Government looked for ways of reducing the impact of the planned fiscal expansion, the markets reacted negatively to the proposed fiscal package and the uncertainty over the Government's macro stance, contributing to two severe speculative attacks on the Quetzal in May/June and August/September. By end-June, international reserves earned from privatization proceeds were fully exhausted in defending the currency. By end-September the Government succeeded in canceling the proposed fiscal expansion and proceeded to tighten somewhat monetary policy. Although a major fiscal crisis seems to have been averted, the incoming Administration will need to act quickly to strengthen macroeconomic policies and reduce the uncertainty in markets caused by the erratic and inconsistent policies of the past two years.

While the original intention of this report was to analyze the fiscal stance supporting the peace process, progress in the Government's state modernization program, and performance in meeting agreed socioeconomic peace targets, the macroeconomic developments described above and the possibility of a major crisis required a more detailed analysis and intensified policy dialogue on the underlying macroeconomic risks in Guatemala. While this necessarily entailed delaying production of the report itself, the process of analyzing the macro situation with Government counterparts contributed in some measure to the avoidance of a more serious macro crisis. The report retains the macro analysis that was used in the policy dialogue with the Government, since although a major crisis seems to have been averted, the analysis remains broadly valid and should help to inform the incoming Administration's macroeconomic agenda.

The analysis, policy dialogue and the process followed to prepare this report also proved useful in a number of specific areas. First, the macro analysis and fiscal projections were presented as a World Bank input to the Fiscal Pact—a national forum created by the Peace Commission to build consensus around a commonly agreed and, to the extent possible, apolitical fiscal agenda for 2000-03, especially on the tax front. The Fiscal Pact Meeting took place on October 12-13, 1999 in San Salvador, which included representatives from the Government, main political parties and civil society. Second, the macro analysis and recommendations were also used in an emergency donor meeting in Washington on October

1, 1999, called by MINUGUA to review macroeconomic developments. Third, the report's Chapter II recommendations on public sector modernization were an input in the elaboration of the 2000 budget. Fourth, Chapter III has served to inform discussions between MINUGUA and the Government on reprogramming of the peace targets. This will need to be taken up with the incoming Government, but the analysis in the report and the supporting working papers is helping to provide a technical base for the discussions. Fifth, the special sector reports have been considered by the leading think tanks, which are preparing policy proposals to be submitted to the new Government. The Bank will support further dissemination efforts as deemed appropriate by the new Administration in early 2000.

Preparations for the study were fully supported by the Economic and Social Cabinets, in particular by the Ministries of Finance, Education, Health, Communications and Transport, Energy, Bank of Guatemala, SEGEPLAN, FIS, FONAPAZ, FSDC, INFOM and the Superintendencies of Energy, Telecommunications and Tax Administration, who also provided continued valuable inputs to the special sector reports. Most agreements and conclusions discussed with the Authorities, think tanks, sector specialists, political parties and civil society are reflected in these reports.

□

CHAPTER I

POST-CONFLICT EXPENDITURE TRENDS AND CHALLENGES

A. Overview

1.1 The Peace Accords signed in December 1996 provide the overall framework for public sector modernization and expenditure reform in Guatemala. For many decades, public investment in the social sectors and basic infrastructure was seriously neglected. The Socioeconomic and Agrarian Issues (SEA) Accord, in particular, aims to restructure expenditures—reducing military spending and increasing spending on social and basic infrastructure—and enhance the equity and efficiency of public service delivery (Box I.1). The new Administration inaugurated in January 1996, realized at the outset that simply redirecting budgetary allocations to priority areas would not be sufficient to meet peace commitments, as well as its broader goals of faster growth and poverty reduction. Without a concerted effort to reform institutions, processes and systems within the public sector, it would be unable to ensure that budget reallocations could be sustained, reach intended beneficiaries or contribute to improvements in quality. The 1997 World Bank Public Investment Review (PIR) (Report No.16392-GU) found that budgeted expenditure reallocations were generally in line with peace priorities, consistent with a prudent fiscal scenario provided progress was made in raising the tax base, and included an appropriate change in the public/private mix in service delivery. It noted, however, the need to advance on the public modernization program, especially since some sector allocations looked high relative to historical absorptive capacity in key sectors.

Box I.1 Selected Peace Accord Targets

Socioeconomic and Agrarian Issues

- ❖ *Growth:* 6 percent by the year 2000.
- ❖ *Tax Revenues:* 50 percent increase in the tax revenue ratio between 1995 and 1999.
- ❖ *Public Spending:* (i) 50 percent increase of executed public expenditure in health and education in 2000 with respect to 1995; (ii) at least 50 percent of executed health expenditures devoted to preventive care before 2000; (iii) 1.5 percent of tax revenues allocated to low-income housing from 1997; (iv) annual public investment program on rural development of Q.200 million and rural basic infrastructure of Q.300 million between 1998-2000.
- ❖ *Coverage of Education:* (i) facilitate the access to 3 years of primary education to 7-12 year old children before 2000; and (ii) increase literacy rate to 70 percent by 2000.
- ❖ *Health:* (i) 50 percent reduction in the 1995 infant and maternal mortality rates before 2000; and (ii) maintain poliomyelitis eradicated and elimination of measles by 2000.

Strengthening of Civilian Rule

- ❖ *Judicial Reform:* 50 percent increase in the executed budget allocated to the Judicial Body and the Public Ministry between 1995 and 2000.
- ❖ *Public Security:* 50 percent increase in executed public security spending between 1995 and 2000.
- ❖ *Army:* (i) 33 percent reduction in budget military spending between 1995 and 1999; (ii) 33 percent reduction of army personnel in 1997; and (iii) full disbanding of the military police in 1997.

1.2 This report adopts a positive rather than a normative approach, which takes the Peace Accords as a given. It is also based on the premise that the key role that public sector modernization and expenditure reform would need to play in implementing the Peace Accords was well understood at the outset in Guatemala. Within this framework, the report looks at three interrelated aspects of the peace process in Guatemala—the fiscal stance underlying peace (Chapter I), progress in the public sector modernization program (Chapter II), and performance in meeting socio-economic peace targets (Chapter III). The first chapter examines post-conflict fiscal patterns resulting from peace program implementation, particularly: (i) fiscal trends in the pre- and post-peace periods; (ii) the consistency between sector policies and public outlays, including those not directly addressed in the Peace Accords, but which are essential components of reform; (iii) public spending targeted on the poor; (iv) budget flexibility; and (v) key challenges remaining, including the need to reduce macroeconomic vulnerability in the short term

and ensure sustainability of the reforms in the medium-term. The second chapter evaluates efficiency improvements in service delivery capacity associated with progress in public sector modernization and explores a set of pending second-generation reforms. Finally, the third chapter presents a detailed analysis of the Government's fulfillment of the quantitative and social benchmarks set in the SEA Accord, especially the role of restructured budgetary allocations and improved institutional capacity in meeting the agreed targets

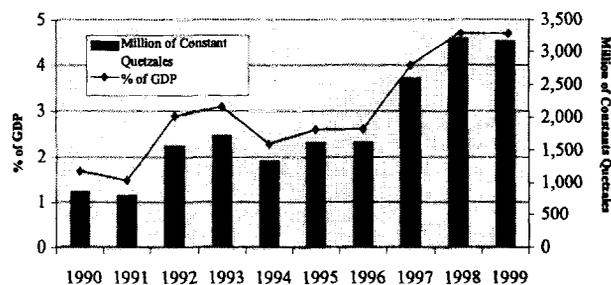
B. Trends in Public Finance during the Pre-Peace Period

1.3 Guatemala suffered a balance of payment crisis in 1990 mainly caused by the deterioration of public finances. Increased spending and a falling tax ratio—6.9 percent of GDP—raised the combined public sector deficit (including Bank of Guatemala-BOG-losses) to a high 4.2 percent of GDP. Inflation reached a record-high 60 percent, foreign exchange reserves fell to 1.8 months of imports, and the country accumulated external arrears.

1.4 Adjustment measures during 1991-95 stabilized the economy and allowed a modest recovery in growth, but with little progress on the social front. Economic growth averaged about 4 percent and inflation fell to single digits in 1995. As efforts to raise the tax ratio were only partially successful—it fluctuated between 6.8 and 8.3 percent of GDP—fiscal discipline was mainly achieved through tight expenditure control, with combined public spending decreasing from 17.5 percent of GDP in 1990 to 14.2 percent in 1996, and public investment stagnating below 3.3 percent of GDP. With limited access to external financing and low tax revenues, the Government's stabilization efforts also relied on domestic borrowing and monetary policy. Increased recourse to domestic borrowing raised domestic interest rates above regional levels. To sterilize the resulting capital inflows, the Government tightened monetary policy through high reserve requirements and recourse to open market operations to control liquidity, thus also contributing to higher interest rates and increasing domestic debt service. At the outset of peace, Guatemala had a relatively stable economy, growing modestly, but with social indicators ranked among the worst in the Latin American and Caribbean Region (LAC).

1.5 The Peace Accords sought to alter this historical macro-development framework through: (i) faster and more equitable growth to make significant inroads in poverty; (ii) ambitious public expenditure reforms, including additional spending of over 4 percent of GDP; (iii) a modest tax effort aimed at raising the tax ratio to 12 percent of GDP by 1999, to finance increased social spending without creating fiscal instability; (iv) a peace dividend which would shift military expenditures (0.5 percent of GDP) toward the social sectors; and (v) reliance on external donor financing to cover temporary deficits arising from the implementation of peace programs. The Government also launched a privatization program that generated extraordinary capital revenues of US\$584 million in 1998.

Figure I.1 - Capital Expenditure of Central Government



Source: Statistical Appendix, Tables 10,11

C. Post-Conflict Spending Trends

Table I.1 - Changes in Capital and Current Expenditure Shares, Pre and Post - Adjustment

Country	Year	Capital Expenditure (%)	Current Expenditure (%)	Pre-Adjustment (%)	Post-Adjustment (%)	Change (%)
Bolivia	1987-92	9.8	90.2	22.5	77.5	+
Brazil	1984	8.2	91.8	5.1	94.9	-
Chad	1989	65.1	34.9	58.3	41.7	-
Chile	1986-88	8.4	91.6	12.1	87.9	+
Colombia	1985	21.8	78.2	18.2	81.8	-
Costa Rica	1985-89	14.6	85.4	10.8	89.2	-
Guatemala Pre-peace*	1993-95	20	80	25	75	+
Guatemala Post-peace*	1997-98	25	75	35	65	+
Indonesia	1987-91	44.8	55.2	50.1	49.9	+
Panama	1984-87	14.5	85.5	2.1	97.9	-
Rwanda	1991	32.8	67.2	25.9	74.1	-
Senegal	1981	8.2	91.8	20.9	79.1	+
Togo	1983-85	28.1	71.9	33.7	66.3	+
Tunisia	1987-89	28.9	71.1	21.1	78.8	-
Turkey	1988	18.2	81.8	14.9	85.1	-
Uruguay	1984-89	7.3	92.7	6.1	93.8	-
Zambia	1984-86	12.1	87.9	30.4	69.6	+
Zimbabwe	1983	6.3	93.7	7.3	92.7	+

* Note: Data for Pre-Peace period are 1990-92 before adjustments and 1995-96 after adjustment

Date for Post-Peace period are 1995-96 before adjustment and 1997-98 after adjustment.

Source: Statistical Appendix, Table 6, 10; Hutter, Roberto, Shah (1997)

1.6 Capital and Current Expenditures. Although there is no optimal capital/recurrent spending mix for developing countries (Pradhan, 1996 and Devarajan, Heng-fu and Swaroop, 1996), implementation of the Peace Accords would require a marked reversal in Guatemala's long-standing pattern of severe under-investment and low access by the majority of the population to public services. Since the early 1990s, the World Bank has consistently recommended sustained increases in public capital spending to improve access to basic services by Guatemala's poor and excluded populations. Little progress was achieved until the Peace Accords were signed, when the Government began a gradual process of restructuring the level and composition of public expenditures in order to meet peace targets. In 1998, combined public spending increased to 15.7 percent of GDP—1.5 percent above pre-peace levels—entirely due to an extraordinary increase in capital expenditures (Figure I.1). Therefore, compared not only to other countries in pre- and post-adjustment periods, but to its own 1993-95 pre-peace adjustment period, Guatemala is one of those countries whose adjustment and/or post-conflict allowed them to raise their capital/current expenditure ratio: above 50 percent over pre-peace levels (Table I.1).

1.7 Sector Composition. The Government has made considerable progress in shifting public expenditures toward key social sectors and basic infrastructure, and in reducing military and public debt outlays. In line with the Government's program and supported by the World Bank's PIR recommendations, intra-sector priorities in education, health, roads, power and telecommunications were appropriately addressed (Annex G). During 1995-99, spending on (Figure I.2):

- Social sectors reached almost half of the 1999 budget;
- Basic infrastructure raised its share to a quarter, from a pre-peace share of one-fifth of total expenditure, due essentially to spending on roads and transport;
- Debt servicing was halved, due largely to a significant reduction in BOG and domestic debt, while public administration and military expenditures declined by 3 and 4 percent respectively. This may not be sustainable, however, as fiscal policy weakened in 1999 and additional spending may be increasingly financed through domestic borrowing.

Figure I.2 - Allocation of Budget Among Major Categories

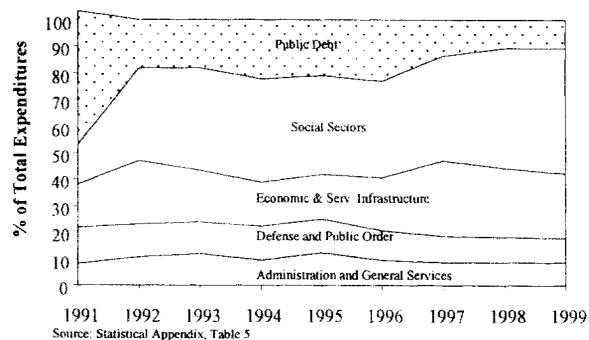
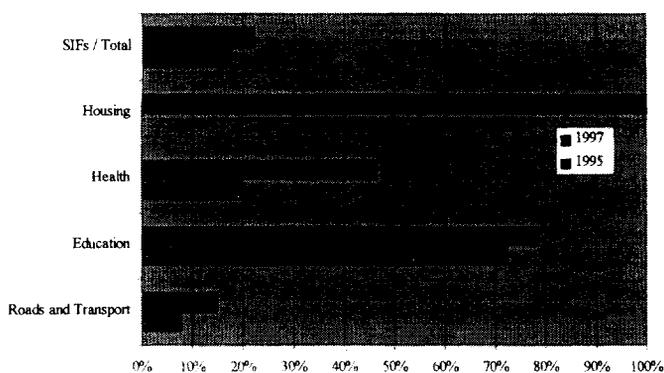


Figure I.3 - Share of Social Funds in Public Investment



1.8 The growing importance of the social funds and municipalities explains the large increase in post-conflict social spending. In 1999, they account for 30 and 25 percent of total budgeted public investment. Data on executed spending by municipalities is not available, but the key role played by the social funds is illustrated in Figure I.3:

- All peace-related low-income housing investments were carried out by FOGUAVI;
- Most school rehabilitation—roughly 80 percent of total education investment—was done by two funds, FIS and FSDC, sub-contracted by the Ministry of Education;
- Social funds accounted for almost half of health investments; and
- Social fund participation in the road sector investments was only 15 percent, but it almost doubled from its 1995 pre-peace share.

1.9 **Regional Composition.** As post-conflict social spending has increased significantly, targeting becomes critical for measuring its impact on the poor. The Peace Accords call for a de-concentration of public spending from Guatemala City, while expenditure reform aims to focus outlays in the poorest areas of the country. A look at the regional decomposition of expenditures ranked by the index of unsatisfied basic needs (UBN)¹ between pre-and post-peace years (1995-98) reveals important progress but also some shortcomings (Table I.2):

Table I.2 - Unsatisfied Basic Needs (UBN), Human Development (HD) and Regional Distribution of Public Expenditure

Region	UBN (index)	HD (index)	Central Government*		FIS 1998 (%)	FSDC 1998 (%)	municipalities 1998** (%)	INFOM 1998 (%)
			1995 (%)	1998 (%)				
VIII	34.61	0.46	4.98	4.90	8.48	4.85	3.65	4.83
II	25.77	0.40	5.08	4.71	12.48	7.52	7.40	3.35
IV	21.96	0.46	5.74	5.87	11.91	9.94	9.86	8.15
VII	20.78	0.38	7.03	7.11	14.51	10.91	15.63	8.88
III	20.21	0.50	6.74	8.37	9.71	12.90	11.45	15.75
VI	16.39	0.43	9.66	13.60	31.61	24.09	27.35	42.35
V	15.50	0.48	6.84	7.07	7.02	12.37	12.56	7.66
I	10.14	0.83	53.90	48.37	4.29	17.43	12.10	9.03

Source: World Bank Staff estimates based on Rojas (1999), PNUD (1999), Chocano (1999) and tables 33-39 * Percentages add up 100 (prorated debt service and multiregional spending)

** Constitutional 10% of budget current revenues transfer only.

Notes: Region I: Guatemala; II: Alta Verapaz, Baja Verapaz; III: Zacapa, Chiquimula, El Progreso, Izabal; IV: Jutiapa, Jalapa, Santa Rosa; V: Sacatepequez, Chimaltenango, Escuintla; VI: Quetzaltenango, Retalhuleu, San Marcos, Solola, Suchitepequez, Totonicapan; VII: Quiche, Huehuetenango; VIII: El Peten. FIS 98: Up to July 30.

¹ The Table also shows the UNDP index of human development (HD), but its simple correlation coefficient with the UBN index is surprisingly low, 0.38. Other human development indexes (for women and social exclusion) were also tested, but their correlation with the UBN coefficient also did not improve.

- There was progress in de-concentrating GOG expenditures from Guatemala City to the Regions, from 54 to 48 percent;
- FIS, INFOM, the municipalities and FSDC contributed to this trend, devoting 4, 9, 12 and 17 percent of their resources respectively to Guatemala City, compared to 48 percent by the Central Government.
- The Regions that have benefited the most from such de-concentration were not, however, the poorest (VIII, II and IV), but the richest (VI and to a much lesser extent, V).
- Peace has not modified the status quo regarding overall budget composition by Regions: (i) the three poorest regions continue receiving the same share of GOG spending, 16 percent, whereas the three richest Regions continue receiving roughly 70 percent.
- In absolute terms, the bulk of social fund investment was not assigned to the Regions with extreme or severe poverty—lower shares went to the three poorest Regions, 32 percent in the case of the FIS and 22 percent in the case of FSDC. At the same time, 41 and 54 percent were allocated to the three richest regions.

1.10 Departmental and Municipal Composition. Although spending on the poorest regions remains insufficient, targeting by the FIS on the poorest departments was higher and better focused than FSDC, municipalities, INFOM and the GOG (Table I.3). In 1998:

- FIS assigned 35 percent of its resources to the seven poorest departments compared to 21 percent to the seven richest. FSDC, however, assigned 27 percent to the poorest departments compared to 37 percent to the seven richest.
- FIS does apply a poverty map (based on UBNs) to allocate resources at the departmental level. Regression estimates show that the simple correlation coefficient between poverty and FIS investments by department in 1997 was a positive 61.6 (69 for education and 23 for water), but a negative -19.7 for sanitation. At the municipal level, however, results are mixed. The correlation coefficients between FIS investment and poverty for the 289 municipalities with available data, follow a similar pattern but with lower and less significant regression coefficients. The 50 poorest municipalities, however, show an inverse relationship (Chocano, 1999b).
- FSDC does not apply poverty criteria to allocate resources. The simple correlation coefficient between poverty and FSDC investments by departments during 1995-98 was a negative -0.38, and was only positive in the case of power projects (Chocano, 1999a).
- In the same vein, investment by municipalities was not focused on poverty needs. The simple correlation coefficient between poverty and municipality investments in 1997 was a negative -17.26. A similar inverse relationship was found for municipality investments in the 50 poorest municipalities (Chocano, 1999b).

Table I.3 - UBN, HD and Departmental Distribution of Public Expenditure - 1998

Departamentos	UBN (index)	HD (index)	FIS (%)	FSDC (%)
El Peten	34.61	0.46	8.48	4.85
Alta Verapaz	31.01	0.36	3.76	3.88
Chiquimula	24.77	0.45	5.00	4.49
Jalapa	24.28	0.44	4.20	3.59
Izabal	23.08	0.50	0.44	2.04
Jutiapa	22.99	0.45	2.47	2.73
Quiche	22.41	0.37	7.49	5.48
Baja Verapaz	20.52	0.45	8.72	3.64
Huehuetenango	19.14	0.40	7.02	5.43
Santa Rosa	18.62	0.48	5.18	3.62
Suchitepequez	18.37	0.44	2.49	3.74
Solola	18.29	0.39	6.26	2.98
Zacapa	17.36	0.54	1.44	3.79
Chimaltenango	16.69	0.44	3.47	5.59
San Marcos	16.62	0.41	6.69	6.13
Retalhuleu	16.15	0.52	3.74	3.07
El Progreso	15.61	0.53	2.78	2.58
Sacatepequez	15.42	0.05	1.17	3.03
Quetzaltenango	14.98	0.46	3.27	4.67
Escuintla	14.4	0.46	2.38	3.75
Totonicapán	13.9	0.37	9.16	3.5
Guatemala	10.14	0.83	4.29	17.43

Source: Bank Staff estimates based on Rojas (1999), PNUD (1999), Lee (1999), Chocano (1999)

1.11 **The Mitch Factor.** The reconstruction work required as a result of Hurricane Mitch strengthened the positive aspects of expenditure reform, but also highlighted its shortcomings. Mitch did not have longer-term effects on domestic production and basic infrastructure, with the exception of the banana sector and, to a lesser extent, coffee. Preliminary reconstruction needs of about US\$260 million were much lower than those of neighboring countries (Box I.2). In response, the Government prepared an emergency plan (the 100 Days Plan), setting specific sectoral targets for immediate emergency and rehabilitation support. The Plan was managed by an interim Reconstruction Cabinet and supported by an Emergency Decree that allowed bypassing Guatemala's standard procurement procedures. Donors agreed to streamlined procedures, so as to provide swift external financing under exceptional circumstances.

Box I.2. Mitch External Financing Reconstruction Needs	
(US\$ Millions)	
✧ Agricultural Exports	100-120
✧ Roads / Transport	30-40
✧ Power	8-10
✧ Telecoms	6-8
✧ Housing	9-11
✧ Education	10-12
✧ Health	15-20
✧ Industry*	30-40
TOTAL	208-261
<i>Source:</i> staff estimates based on Government financing requests.	
* Projected fall in manufactured exports to the region.	

1.12 The Plan was successfully implemented, suggesting a substantial improvement in the public sector's project execution capacity (para. 2.9). By the end of the 100 days, the Government had spent Q720.4 million (US\$103 million), or about 98 percent of budgeted resources, having completed almost all planned activities. At least 40 percent of the Plan was estimated to have been externally financed (Schneider, 1999).

1.13 Post-Mitch reconstruction, however, highlighted a number of important shortcomings:

- ❑ Limited institutional capacity: since Mitch-affected areas were different from those affected by the conflict—ZONAPAZ—and human resources were scarce, implementation of peace programs was *de facto* suspended during the Plan period.
- ❑ Fiscal constraints: a weak revenue base and looser spending, partly related to Mitch, led to a GOG deficit of 2.4 percent of GDP—1 percent above projections (Table I.5).
- ❑ An ad-hoc division of labor among Government institutions that threatens to become a permanent distortion: (i) FONAPAZ was driven to work on non-peace urban areas, especially low-income housing, where it had little prior experience or technical expertise; (ii) FSDC got involved in school rehabilitation, a declining priority for its portfolio and a sector where FIS has a comparative advantage; and (iii) FIS got into areas more appropriately handled by ministries, such as food distribution and secondary roads rehabilitation.
- ❑ Extreme poverty needs had little relationship with the allocation of Mitch resources. The simple correlation coefficient between poverty and Mitch investments at the municipal level is negative, -0.07. A similar conclusion results from the mapping of Mitch investments by poverty categories in health, water, education, and roads (Schneider, 1999).

1.14 **Expenditure Flexibility.** Increased budgetary flexibility has been a major achievement of the reforms (Table I.4). In 1990, Guatemala ranked among countries with the most inflexible budget (inflexibility index of 80 percent). Under the structural adjustment program it diminished to 52 percent in 1995 and post-conflict reforms lowered it further to 40 percent in 1998. Key factors explaining such outcome were lower public debt interest payments, higher tax revenues

and lower military expenditures. Implementation of the Integrated Financial Management System (IFMS) also contributed (para. 2.6). Budget flexibility helped finance the initial steps toward fiscal decentralization, including the more than doubling of earmarked transfers to municipalities from 0.4 percent of GDP in 1990 to 1 percent in 1998.

TABLE I.4 Budget Inflexibility (Fixed Categories as % of Revenue)

Region/Country	1977-1985	1986-1994
Industrial Countries	39	39
Latin America	29	37
South Asia	54	69
Eastern Asia and Pacific	37	34
Sub-Saharan Africa	27	41
Eastern Europe & Central Asia	35	20
<i>Most Inflexible Countries</i>		
Democratic Republic of Congo	39	122
Brazil	37	99
Guatemala	52	40
India	81	91

Note: Figures reflect period averages of the results for each year: (Defense outlays + interest payment + transfers to other levels of government)/(total revenue & grants – grants – public entrepreneurial & property income). Data for Guatemala are for 1995 and 1998.

Sources: Huther, Roberts and Shah (1997), World Bank staff estimates.

1.15 Overall Progress in the Privatization Program. The Government's privatization program is almost complete (Box I.3). The mail and railroads, under concession to foreign operators, are showing improvements in service delivery. In the electricity and telecommunication sectors, large parts of the state enterprises have been privatized and a minimum competitive regulatory framework has been put in place. Although regulatory agencies have sufficient operational and financial autonomy, and appear adequately staffed and financed, their institutional capacity still requires considerable strengthening in terms of global expertise and technical capacity. The Government is also starting targeted programs to extend electricity and telecom services to rural areas with private sector participation. Power coverage has increased from 52 percent in 1995 to 68 percent at present, and is projected to be as high as 90 percent by 2002. The telephone penetration rate should increase from 4 percent to the LAC average of 10 percent by 2002. As tariffs in both sectors have been rising, there have been some concerns about the lack of competitive pressures in these markets and the effectiveness and mechanisms used by the Regulatory Power Commission to set tariffs.

1.16 From expected privatization revenues totaling over US\$1.4 billion between 1998-2001, about 60 percent had been received by mid-1999 (4.3 percent of GDP), of which the Government devoted only US\$112 million to repay short-term domestic debt. TELGUA's privatization, however, generated pressure on the Quetzal in late 1998, as US\$136 million of the required down payment by local investors was purchased in the domestic foreign exchange market. Since September 1998, the BOG has heavily supported the Quetzal by selling more than US\$688 million (more than the privatization proceeds obtained in 1998). More seriously, and as discussed below, resources mobilized by the privatization program, appear to have made it harder to resist pressures to adopt an expansionary fiscal stance in the lead up to national elections.

Box I.3 Guatemala Privatization Program

- ❖ **Power.** The electricity distribution company (EEGSA), was sold for US\$520 million to Iberdrola (Spain) Electricidad de Portugal and TPS (US) on July 30, 1998. The other distribution company (INDE) was sold for US\$101 million to Union Fenosa (Spain) on December 22, 1998.
- ❖ **Telecommunications.** The telecoms company (TELGUA) was sold for US\$700 million to LUCA, a Central-American holding company on November 10, 1998. Payments will take place in 3 stages: US\$200 million at signing, and US\$150 and US\$350 million plus LIBOR+3 in interest 18 and 36 months later. The bidding process has been challenged on the grounds of lack of transparency.
- ❖ **Railroads.** The railroad company (FEGUA) was concessioned to Railroad Development Corporation (US), which was expected to invest US\$10 million in 1999.
- ❖ **Mail.** The Directorate of Mail and Telegraphs was leased for 5 years to International Postal Service (IPS) Canada on September 16, 1998. The Government retains control of postal fees.
- ❖ **State Banks.** The National Housing Bank (BANVI) is in the process of being liquidated.
- ❖ **Airports.** The Government is evaluating 5 pre-qualified operators for the concessioning of La Aurora International Airport (Guatemala City) and Santa Elena International Airport (Flores, El Petén).
- ❖ **Ports.** The Government contracted an investment bank to auction under a 25 year contract new port facilities in Quetzal and Santo Tomas.
- ❖ **Agriculture.** The silos of the National Institute of Agricultural Marketing (INDECA) were sold on August 3, 1998 for US\$5.4 millions.
- ❖ **Roads.** The Government prepared 5 road segments for concessioning but received no offers.
- ❖ **Natural Gas.** The Government is seeking private investment for a 1,000 km. gas pipeline linking Mexico, Guatemala, El Salvador and Honduras.

D. The Main Challenges of an Incomplete Agenda

1.17 Macroeconomic Instability. On April 1999, the Government approved an extraordinary budget increase of Q3 billion, to be financed with privatization proceeds. As a result of strong criticism and concerns, the Authorities first announced on May 1999 that effective outlays—other than domestic debt repayments—would have a ceiling of Q1.3-1.4 billion. Even such a reduced package would have had serious medium-term economic effects and confronted the new Administration in early 2000 with a difficult macro picture: (i) the combined fiscal deficit would rise to about 3.2 percent of GDP, requiring a relatively severe fiscal compression in 2000; (ii) the increased spending would likely exacerbate inflationary pressures and increase pressure on the Quetzal; (iii) gross international reserves would decline below a vulnerable 2.5 months of imports, especially if the monetary authorities continued to rely on direct intervention in foreign exchange markets rather than indirect monetary policy instruments to defend the currency; and (iv) growth would fall below 4 percent if domestic interest rates rose by a range of 3-5 percentage points as a result of open market operations to sterilize excess liquidity, and/or spreads rose due to higher country and exchange risks. As the budget reduction had little success in calming the market, it was derogated on September 1999.

1.18 The Fragile Fiscal Base. The key challenge to fulfill the Peace Accords remains increasing tax revenues (Annex A). Between 1995 and 1998, the tax ratio increased by about 1 percent of GDP—barely one-fourth of the Peace Accords target—and this increase was partly due to a temporary asset tax. In 1999, the tax ratio will increase 0.4-0.5 percent of GDP, but most additional revenues will arise from March and September 1999 tax amnesties (about 0.3 percent of GDP) as the Government decided: (i) not to adjust tax rates in the lead up to the elections; (ii) place most of its hopes for additional revenues on improved tax administration through the newly-created Superintendency of Tax Administration (SAT); and (iii) convene a National Fiscal Pact to reach a consensus on longer-term fiscal reforms that could transcend political differences.

1.19 A major improvement in the tax revenue performance is critical for peace consolidation from 2000 onwards, but it is also required to ensure macro stability and higher growth. A passive scenario, including improved revenue collection expected through the SAT (0.4-0.5 percent of GDP), would result in a fall of the tax ratio of 0.3 percent of GDP and a fiscal deficit of 3.1 percent of GDP in 2000 (Table I.5). Upon its arrival, a new Administration committed to

implementation of the Peace Accords would face difficult choices: raising additional revenues, financing expenditure targets agreed in the Peace Accords with expensive domestic debt, further depletion of privatization proceeds, and/or closing the fiscal gap through substantial cuts in non-Peace social expenditures.

Table I.5 FISCAL SCENARIOS

	1995	1996	1997	1998 ^p	1999 ^f	2000 ^f
	(As percent of GDP)					
Central Government						
Revenues	8.6	9.2	9.2	9.8	9.9	9.9
Taxes	7.9	8.7	8.8	8.9	9.4	9.1
Other revenues	0.7	0.5	0.4	0.9	0.5	0.8
Total Expenditure	9.4	9.2	10.1	12.2	13.6	13
Social Sectors	3.9	3.8	4.4	5.9	6.5	6.1
Education	1.7	1.6	1.8	2.2	2.3	2.5
Health	0.9	0.8	1.0	1.1	1.2	1.3
Other ¹	1.3	1.4	1.6	2.6	3	2.3
Economic Infrastructure & Serv. ²	1.7	2.1	2.8	2.9	2.8	2.8
Defense and Public Order	1.3	1.1	1.1	1.2	1.1	1.2
Defense	1.0	0.8	0.9	0.7	0.7	0.7
Public Order	0.3	0.3	0.3	0.5	0.4	0.5
Public Debt Interest	1.2	1.2	0.8	1.1	1.4	1.6
Administration and General Services	1.3	1.0	1.0	1.1	1.2	1.3
Overall Balance	-0.9	0.0	-0.9	-2.4	-3.1	-3.1
Statistical Discrepancy	0.3	-0.2	0.4	-0.1	0.0	0.0
Central Government Deficit	-0.6	-0.2	-0.5	-2.5	-3.1	-3.1
Memo						
Rest of SPNF	0.7	1.3	1	0.8	0.7	0.7
BOG losses	-0.9	-1.2	-0.8	-0.3	-0.2	-0.3
Combined Public Sector Deficit	-0.8	-0.1	-0.3	-2.0	-2.6	-2.7

Source: World Bank Staff estimates; p preliminary; f forecast

¹ Includes housing urban development, community development and social service.

² Includes rural infrastructure and development. Excludes VAT returns (0.5% of GDP for 1997 and 1998).

Note: Additional recurrent costs for a minimum of Q800 millions required by institutional peace programs

1.20 A deficit-growth-gap model (World Bank, 1996) was used to estimate the kind of fiscal effort that would be required. Based on projected deficit and growth figures for 1999, the fiscal effort required to bring the combined fiscal deficit to a sustainable path is between 1.5-1.9 percent of GDP. In the arithmetic of fiscal accounts, a fiscal deficit is unsustainable if its relationship to GDP growth is higher than the public debt/GDP ratio, i.e. it is under-financed. Sustainability improves as GDP growth increases or the fiscal deficit decreases or, preferably, both (Annex B). In Guatemala, the fiscal stance improved up to 1997 as a result of faster growth with low fiscal deficits (Table I.6). Thereafter, the combination of high fiscal deficits with slower growth has weakened the fiscal situation. In 1999, the fiscal deficit-to-GDP-growth ratio (deficit after-grants equivalent to 0.4 percent of GDP) is projected to be more than three times higher than the debt-to-GDP ratio (21 percent). Assuming growth remains at 4 percent, to bring the deficit back to a sustainable level (0.7 percent of GDP) would require a budget cut of 1.9 percent of GDP, that would need to be mostly implemented in the first half of 2000. An alternative "rule of thumb"

would require a deficit equivalent to its external financing, which implies a projected cut of 1.5 percent of GDP in 1999.² As the fiscal effort required is already significant (it does not, however, include budget provisions for contingent liabilities), and experience shows that a fiscal adjustment approaching 3 percentage points of GDP is politically difficult to implement in developing countries (Dinh, 1995), reaching a political consensus on the need to take strong revenue measures early in 2000 through the National Fiscal Pact is essential.

TABLE I.6: Sustainability of Public Debt and Fiscal Adjustment
(Percentage of GDP)

Year	Fiscal Deficit (1)	GDP Growth (2)	Potential Debt/GDP (%) (3)	External Debt** (3)	Domestic Debt** (4)	Actual Debt/GDP (%) (5)	Fiscal Effort (5)
1993	2.5	3.9	64.1	19.6	16.6	36.2	1.1
1994	2.3	4.0	57.5	18.7	14.4	33.1	1.0
1995	0.8	4.9	16.3	14.9	13.7	28.6	-
1996	0.1	3.0	3.3	13.0	13.0	26.0	-
1997	0.9	4.3	20.9	12.2	10.7	22.9	-
1998	1.8	4.7	38.3	11.5	9.1	20.7	0.8
1999	2.6	3.6	72.2	11.5	9.0	20.5	1.9
1993-95	1.9	4.3	46.0	17.7	14.9	32.6	0.5
1997-99	1.8	4.2	45.2	11.7	9.6	21.4	0.9

Source: World Bank and IMF staff estimates and Funes (1999).

* Combined fiscal deficit, ** overall public debt (including BOG)

1.21 **Dealing with Fiscal Stress.** Guatemala appears to be a case where privatization proceeds have fed fiscal illusion. A fiscal adjustment is an illusion when proceeds of asset decumulation (privatization) are used to lower the budget deficit or reduce public debt liabilities, but leaving the Government's net worth constant (Easterly, 1999), or negative when offset by an increase in hidden contingent liabilities (fiscal stress). It is now widely accepted that the fiscal deficit should be defined conceptually as the change in net worth, including contingent liabilities, despite the empirical difficulties in estimating it.³ State asset decumulation should result in efficiency gains, but when a government privatizes for fiscal reasons, i.e., instead of tax reform or to finance public consumption, fiscal adjustment becomes an illusion if the change in the public sector's net worth is constant or negative, as in Guatemala.

1.22 Since end-1998, fiscal stress has significantly risen due to rising fiscal deficits and higher contingent liabilities, mostly in the financial system, which raises concerns over Guatemala's potential vulnerability to a twin—currency and financial—crisis. In theory, large and unsustainable fiscal deficits lead to reserve losses, as Authorities attempt to defend the peg, in turn triggering a currency crisis. Empirical work, however, has found little evidence of a systematic link between budget deficits and currency crises, but a significant one for banking

² Using a primary-savings gap model, Funes (1999) estimates a 1.6 percent cut needed for filling 1998-99 fiscal gaps.

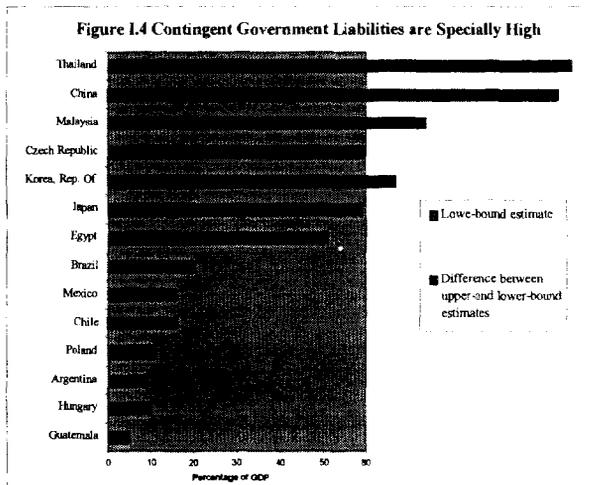
³ The Government's net worth is the sum of asset income (multiplied by r as both the rate of return on its assets and the interest rate on its liabilities), minus debt interest (conventional fiscal deficit), asset de-cumulation, debt accumulation, and hidden contingent liabilities accumulation. The net worth of a solvent Government must be greater than or equal to the present value of its future consumption (discounted by a factor ρ). After privatization, there is no positive change in net worth if the Government uses proceeds to reduce debt interest (lowering the deficit), but increases hidden liabilities (fiscal illusion). As an irresponsible government values consumption today very highly relative to future consumption (high ρ), the change in net worth following asset de-cumulation may also be negative if ρ is greater than r , i.e., the Government disinvests in its future revenue capacity to finance consumption today.

crises as precursors of currency crises (the twin crises) as well as on the transmission mechanisms between the two (Kaminsky, Lizondo and Reinhart, 1997; and Kaminsky and Reinhart, 1999). It may be premature, however, to abandon the fiscal explanation of currency crises as the conventional fiscal deficit is an unreliable proxy for describing the actual fiscal situation of a country under significant fiscal stress as measured by the size of contingent liabilities. If these materialize, they can quickly produce a large fiscal drain (Kharas and Mishra, 1999). Contingent liabilities are explicit or implicit depending on the extent to which the Government is legally required to cover liabilities in the event of default. (Box I.4). In the case of Guatemala, contingent liabilities have worsened due to: (i) increasing fiscal and external imbalances, with fiscal and current account deficits of 3.1 percent and 5.5 percent of GDP respectively, resulting from loose monetary policy and Hurricane Mitch in 1998; (ii) real exchange rate misalignment—a 27 percent real appreciation in June 1998 with respect to its average 1992-95; (iii) adverse terms-of-trade due to a marked fall in export prices (coffee and sugar) in 1999; (iv) a credit crunch that has affected the financial system during the second semester of 1999, preceded by a credit boom in 1998; (v) a reversal of short-term private capital inflows, as real domestic interest rates fell; (vi) an ensuing economic slowdown; and (vii) the use of privatization proceeds to finance an expansionary fiscal policy in an election year (Annex C).

Box I. 4: THE FISCAL RISK MATRIX		
Liabilities*	Direct (obligation in any event)	Contingent (obligation if a particular event occurs)
Explicit Government Liability is recognized by law or contract	<ul style="list-style-type: none"> - Foreign and domestic sovereign borrowing (loans contracted and securities issued by the central government) - Expenditures by budget law - Budget expenditures legally binding in the long term: <ul style="list-style-type: none"> civil service pensions and IGSS services pensions/health programs 	<ul style="list-style-type: none"> - State guarantees for nonsovereign borrowing and obligations issued to subnational governments and public and private sector entities (development banks) <ul style="list-style-type: none"> INDE INFOM PUERTO QUETZAL EMPAGUA GUATEL BANGUAT BANVI CORFINA MUNICIPALIDADES - State insurance schemes for deposits
Implicit A "moral" obligation of the government that mainly reflects public expectations and pressures by interest group	<ul style="list-style-type: none"> - Future recurrent costs of public investment projects - Future public pensions (as opposed to civil service pensions if not required by law) - Social security schemes if not required by law - Future health care financing if not specified by law 	<ul style="list-style-type: none"> - Default of a subnational government and public or private entity on non-guaranteed debt and other liabilities <ul style="list-style-type: none"> INDE INFOM PUERTO QUETZAL EMPAGUA GUATEL BANGUAT BANVI CORFINA MUNICIPALIDADES - Cleanup of the liabilities of privatized entities <ul style="list-style-type: none"> GUATEL INDE - Bank failure (beyond state insurance) - Default of the central bank on its obligations (foreign exchange contracts, currency defense, balance of payments stability)
<small>a Of fiscal authorities, not the central bank</small>		

1.23 Contingent liabilities arising from the financial system have soared. Severe solvency problems in at least 8 commercial banks, the failure of 17 financial companies and the slump in the economy and stock market reflect the considerable stress affecting the financial system in 1999 (Lemus, 1999). In addition to factors depicted above, it also results from: (i) deterioration of the agricultural portfolio, due to Mitch and low export prices; (ii) losses from the bankruptcy of informally linked agro-export financial intermediaries, hit by the credit crunch and bad investments in Russia; (iii) the loss of public confidence reflected in the flight of deposits from weaker financial intermediaries to larger commercial banks and the dollar; and (iv) shortcomings in prudential regulation and the ability of the Superintendency of Banks to intervene insolvent

institutions. These pressures emerged forcefully in 1999, when BOG heavily intervened with more than US\$375 million (one fourth of December 1998 net reserves) to counter three speculative attacks against the Quetzal in January, May/June and August, and provided emergency financing (US\$233 million) to illiquid commercial banks.



1.24 The first step toward fiscal discipline is to identify the sources of fiscal stress and estimate the likelihood of their materialization in the budget. Through end-1998, the size of Guatemala's contingent liabilities was estimated at 9 percent of GDP, arising from: sovereign guarantee to public or sub-national external debt (30.2 percent), bailout of commercial bank liabilities (29 percent), state debt to the health insurance system (25.4 percent), state social security pension fund (10.5 percent) and BOG losses including sterilization costs (4.9 percent) (Funes, 1999). Financial system liabilities are

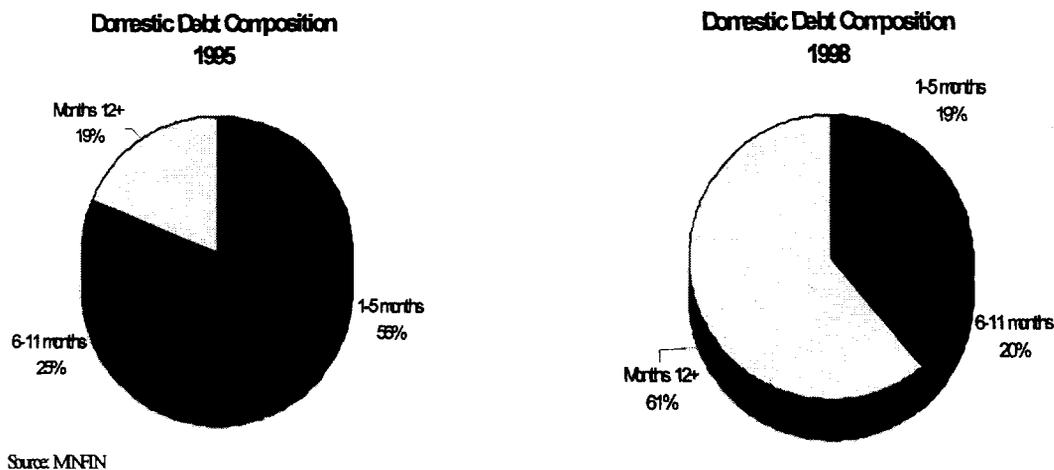
not reflected in the budget, but if they were fully committed, they would account for about a third of total contingent liabilities, a low figure by international standards (Figure I.4).⁴ As the larger the size of the financial sector and the level of intermediation, the greater the contingent liability, such a small figure is explained by: (i) the low depth of financial intermediation relative to the size of the economy, with a stable M2/GDP ratio averaging 2 percent of GDP in the 1990s—among the lowest in LAC despite the adoption of financial sector reforms in the early-to-mid-1990s; and (ii) high administrative costs in the banking sector, averaging 7 percentage points during 1995-98, among the highest in LAC and twice the average of developed countries (ABG, 1998; Burki and Perry, 1997). Under present conditions, the Government's decision to postpone closing insolvent banks and writing-off bad loans for electoral reasons, might increase the fiscal costs of an eventual bailout.

1.25 Minimizing Domestic Debt in Dollar-Linked Bonds. Domestic debt ratios have improved dramatically during the 1990s. However, the proposed fiscal expansion without additional tax measures, is likely to adversely affect the term structure and currency denomination of domestic debt. The domestic debt-to-GDP ratio halved between 1993 and 1998 (Table I.6), the domestic debt service to GDP (excluding repurchases of Treasury bonds) decreased from 1.4 percent in 1995 to 0.8 percent of GDP in 1998; whereas the share of less than six months bonds in total domestic debt decreased from 56 percent in 1995 to 19 percent in 1998 and the 1-year+ term bonds tripled to 61 percent between 1998 and 1995 (Figure I.5). These improvements were due to: (i) the fall of nominal interest rates by 5-7 points between July 1996 and December 1998, partly due to the lowering of reserve requirements as the Authorities relaxed monetary policy; (ii) the decision by the Authorities to minimize open-market operations so as to reduce BOG losses (from 1.2 percent of GDP in 1996 to 0.3 percent in 1998), which contributed to lower domestic

⁴ Standard & Poor's methodology divides the banking system into five risk categories, based on their vulnerability to asset quality pressures during periods of economic slowdown or recession and, under the worst case scenario, estimates the level of direct and indirect costs to the Government and the economy of potentially problematic risk assets. Guatemala's range of potential gross problematic assets as a percentage of domestic credit to the private sector and non financial public sector (NFPS) enterprises is 10-20 percent, and the upper and lower cost bounds are 2 and 3 percent of GDP (Annex D and Lemus, 1999), which is low by international standards.

interest rates; (iii) the lengthening of the maturity of new bond placements; and (iv) the decision to repay expensive short-term domestic debt with privatization proceeds (about US\$112 million or one fifth of privatization revenues).⁵ Such improvements, however, mask a steady expansion in dollar-linked bonds, which has introduced a strong incentive to avoid a nominal depreciation of the Quetzal. Dollar-linked bonds have rapidly risen from 6 percent to 26 percent of domestic debt between 1995 and June 1999 (Funes, 1999). This has resulted not only from Guatemala's successful return to international capital markets with a placement of US\$150 million in 1997, but also from the accelerated placement of short-term Quetzal-denominated bonds—with exchange risk guarantee, similar to Mexican *Tesobonos*—with foreign commercial banks for about US\$255 million in June 1999. In the first half of 1999, more than half of the increase in bonded debt was dollar-linked.

Figure I.5 – Domestic Debt Restructuring



1.26 Recommendations. Strengthening the macro stance is fundamental to reduce Guatemala's vulnerability to speculative attacks and financial stress in the short-term, and to sustain priority post-conflict spending in the medium-term. Following years of expenditure restraint, social and basic infrastructure investment has increased, but these levels are not sustainable with Guatemala's present tax base. Peace targets are attainable, but a three-pronged approach is recommended to ensure their sustainability. First, there is an urgent need to reduce macroeconomic vulnerabilities that can derail the reform process and peace implementation. Second, Guatemala should consider adopting a medium-term expenditure framework (MTEF) to consolidate and deepen recent progress in public expenditure reform and its links with peace implementation. Third, and as part of a comprehensive MTEF, there is a need to strengthen the fiscal base to ensure appropriate financing of peace expenditures and continued improvements in spending patterns.

1.27. Reducing Macroeconomic Vulnerability. This would require adopting a sound and credible stabilization and adjustment program from the start of the new Administration, aiming to strengthen the fiscal position and, through its effect on aggregate expenditure, reduce the unsustainable current account deficit, as well as measures to deal with fragility in the financial

⁵ The Government had originally committed 50 percent of privatization proceeds to repay domestic debt.

system. The commitment to macro stabilization goals would be strengthened if they are part of an MTEF. The stabilization and adjustment effort should include:

- Targeting *fiscal and external current account deficits not to exceed 1 percent and 3 percent of GDP respectively*, which could include a fiscal policy rule (backed by the Fiscal Pact) targeting a fiscal deficit below 1 percent of GDP.
- *Maintaining a tight monetary policy during the adjustment period*, through tight control of private domestic credit expansion and the more effective use of indirect monetary policy instruments (open-market operations). Such policy would contribute to reduce excess liquidity episodes, minimize open market operations to sterilize them, keep domestic interest rates from rising too high and supporting a flexible exchange rate policy.
- *Maintaining an effective neutral real exchange rate policy*. Further depreciation of the exchange rate is likely to be required to reduce the external current account deficit, especially since the stabilization costs of unsuccessful attempts to maintain a quasi-fixed exchange rate in 1999 have appeared too high in light of reserve losses, rising domestic interest rates, reversing private capital flows, adverse terms of trade and the elections.
- *Rebuilding the external position to a 1/1 reserve/monetary base ratio with incoming privatization proceeds*. Reserves should cover a higher proportion of short-term financial sector liquid liabilities, mostly in foreign currency, which are now roughly equivalent to the monetary base. As Calvo (1995) has shown, countries with sound fundamentals but weak banking sectors and high capital mobility, may still face speculative attacks. Hence, a reserve target of 3 months of imports may not be sufficient, especially if the Authorities continue to attempt to maintain a quasi-fixed exchange rate policy. A 1/1 monetary base/net usable reserves ratio requires about US\$600 million over present reserve levels (Edwards, 1999).⁶
- *Quickly resolving the severe solvency difficulties of the banking system*, by requiring increases in capital, in line with the recently approved Banking Law, and promoting closure or merger of banks that cannot comply.
- *Minimizing financial contingent liabilities by strengthening financial regulations and supervision, and establishing contingent sources of liquidity to gradually recover public confidence in the solvency of the financial system*. Implementation of the new Banking Law will contribute to lower systemic risks by setting limits on related lending, higher capital requirements and establishing financial crime, but additional reforms are required, including: an insurance deposit scheme, open disclosure of asset risk valuation and external audits, consolidated prudential supervision—including off-balance sheet and off-shore operations—bank merger laws, the creation of a Risk Center (*Central de Riesgos*), and enhanced powers for the Superintendency of Banks to impose fines on financial institutions that violate prudential norms.

1.28 A Medium-Term Expenditure Framework. The MTEF is a policy tool that integrates the three levels of key institutional arrangements required to ensure sound and more predictable fiscal management: (i) aggregate fiscal discipline under a monetary program to set formal/informal rules/targets on revenues, expenditures, fiscal balance, financing and contingent liabilities; (ii) sectoral allocations based on strategic priorities and external financing availability; and (iii) efficient and effective operational financial performance, which usually implies budget decentralization and performance monitoring mechanisms. Setting rules, targets, sectoral allocations and monitoring mechanisms has the following benefits: (i) promotes credibility in the monetary and fiscal program; (ii) improves the allocation and efficiency of spending; (iii) allows the annual re-prioritization of policies, target areas and beneficiaries; (iv) improves the investment climate by enhancing the predictability of taxes, fiscal balances, public debt and

⁶ The IMF employs the term “net usable reserves” excluding BOG’s creditor position with Nicaragua for about US\$206 million. Present gross reserve levels are about US\$1,150 million (2.8 months/imports of G&NFS).

interest rates; (v) enhances budget management transparency, allowing Congress and civil society to influence budget priorities and monitor government performance. Although adoption of an MTEF in Guatemala would be a complex undertaking, the existence of a well-developed financial management system represents a considerable advantage (para. 2.6). In the case of Guatemala, an MTEF would be a powerful tool to reconcile stabilization pressures with the need to protect as much as possible peace-related expenditures and the recent progress in shifting expenditure patterns. This would reduce the risk that the stabilization costs fall disproportionately on peace programs. It also has the potential to become, over time, an effective instrument to re-prioritize and re-target peace-related expenditures and to allow timely monitoring of public sector performance.

1.29 Strengthening the fiscal stance to deepen and sustain expenditure reforms. The Government would need to consider:

- *Increasing tax revenues in line with rescheduled peace targets to be agreed by the Fiscal Pact* (para. 3.9). Early actions on the tax front are needed as the experience in Guatemala shows that if an incoming administration does not move quickly to raise revenues, it will be very difficult or impossible later. Urgent measures should include tax rate increases, elimination of tax exemptions, a more effective tax administration by the SAT,⁷ tax code reforms to strengthen SAT powers and an increase in the number of judicial tribunals dealing with tax defaults. Other possible measures include: gradual phasing-out of taxes with marginal revenue impact (e.g., stamps, income tax on patrimonial property) or transfer of tax collection responsibility to a more appropriate level of government with shared responsibility, e.g., a reformulated IUSI tax to municipalities, exit tax to airports, vehicle taxes to COVIAL, review of VAT refund mechanisms to prevent abuses and eradication of tax amnesties.

**Box 1.5 The Medium Term Expenditure Framework (MTEF)
The Case of South Africa and the United Kingdom (UK)**

Thanks to its IFMS (Chapter II), Guatemala has now the capacity to develop an MTEF. It could become an extremely valuable tool not only for re-establishing fiscal stability and protecting expenditure reform gains, but could also form the basis for the medium-term fiscal consensus that the National Fiscal Pact is attempting to forge. South Africa and the United Kingdom have developed MTEFs.

The MTEF of the South African Government sets out its reconstruction and development objectives. It is developed by the Government under agreed principles of adequate and predictable taxation, fiscal sustainability and prudent management of fiscal risks (essentially state guarantees). It consists of: (i) a statement of fiscal policy objectives and targets; (ii) an integrated medium-term macroeconomic and fiscal forecast; (iii) estimates of expenditure by ministries and agencies, which become hard budget constraints; and (iv) reliance on simple rules, e.g., the debt ratio cannot rise or exceed a specific limit. It is not multi-year budgeting, but annual budgeting within a 3-year framework. Regarding contingent liabilities, it also features: (i) a statement of public financial assets and liabilities on a cash and on an accrual basis, with an *ex-ante* recognition of contingent liabilities and actual liabilities per ministry, and their risk; (ii) explicit fiscal arrangements between national, provincial and local governments in MTEF projections (the national government funds 95 percent of their revenues); and (iii) strict guidelines for issuing state guarantees, e.g., local governments are not permitted to budget a deficit or guarantee fees are charged to discourage reliance on central government borrowing.

The UK's approach to the MTEF also includes an independent review of macroeconomic assumptions performed by the OECD and an unallocated reserve of 2 percent of total budget, to cover unforeseen events, including realized contingent liabilities. Claims on the reserve fund are severely restricted, decided at the ministerial level, and annual net savings are credited to next year's budget.

⁷ For the SAT to meet its ambitious collection goals it needs to: (i) define a comprehensive tax collection strategy; (ii) develop a new taxpayer registry; (iii) create an urgently needed special taxpayer unit; (iv) design and implement a unified internal and external control system; (v) improve its commercial bank-supported tax collection system; and (vi) double the number of its auditors (Dos Santos, 1999).

- *Maintaining intra-sector priorities and increasing social and basic infrastructure spending to 75 percent of budget expenditure*, as part of an MTEF and in line with quantitative peace targets, i.e., priority on pre-primary and primary education, preventive health, low-income housing and rural infrastructure and development, with improved targeting on the poorest regions, departments and municipalities.
- *At the macro level, maintaining a minimum ratio of capital to current expenditure, also known as r coefficient, of 0.55*. In the short term, this should imply a hiring freeze in the public sector, except in education to meet peace commitments. *At the project level, given low tax revenues and significant donor-driven investment programs, evaluating the r coefficient of existing and new projects rigorously is essential to prevent counterpart funding shortages, adequately budget future current spending required by basic social investments, and weeding out unproductive programs.*⁸
- *Avoiding continued financing of current expenditures with future privatization proceeds (fiscal illusion) and, instead, first retiring short-term domestic debt gradually, so as to prevent liquidity shocks and, then, financing investments that will produce significant medium-term social or economic returns*. Future privatization proceeds still have the potential to destabilize the economy unless they are properly managed. An option to consider is the creation of an investment fund or trust fund (*fideicomiso*) and using only interest earned to finance priority investments, as in Panama's Trust Fund for Development.⁹
- *Shifting the present 1-to-1 ratio between external and domestic public debt to 2-to-1, continuing to reduce the size and lengthen the maturity of domestic debt, while keeping external debt low*. Reducing domestic debt is essential to enable the Authorities to lower reserve requirements and reduce pressure on domestic interest rates. Domestic debt restructuring requires: (i) the creation of a Public Credit Unit at MIFIN to effectively manage and monitor debt; (ii) enhanced coordination of open-market operations between BOG and MIFIN, by making a clear distinction between short-term BOG securities issued for liquidity management and medium-term Government bonds issued by MIFIN to finance the public sector deficit; (iii) reducing BOG losses to a minimum in line with the amount of BOG open market operations; (iv) the gradual use of 50 percent of privatization proceeds to fully repay short-term debt,¹⁰ and minimize medium-term debt to levels required by cash flow management by MIFIN; and (v) keeping the share of dollar-indexed bonds at reasonable levels (below 30 percent of total domestic debt), not only because their sterilization is expensive, but because of their exchange risk.
- *Improving targeting on the poorest*. Taking advantage of the IFMS and GIS (para. 2.10), the minimum targets should be 60 percent of Central Government spending allocated outside the capital, and 50 percent of spending by the social funds on the poorest regions, departments and municipalities. This involves continuing to encourage community and private participation not just in project preparation and sub-contracting, but in co-financing local infrastructure and services through community involvement during implementation. The focus and coverage of operations should improve by the expansion of the new pilot models of local service delivery under implementation in San Marcos and Huehuetenango. Enhanced

⁸ International experience suggests as selected r coefficient per type of project for developing countries: 0.3-0.94 for primary schools, 0.29-0.67 for rural health centers, 0.86-0.94 for rural roads, and 0.60-0.92 for rural development projects (Pradhan, 1996).

⁹ By law, privatization proceeds in Panama are invested in the Trust Fund for Development in liquid and low-risk assets. The Authorities can only use the interest earned by the Fund (US\$43 million in 1998) to finance selected projects. Total assets in the Fund had reached about US\$1.3 billion by end-March 1999.

¹⁰ Assuming that 50 percent of 1998 privatization proceeds would be devoted to repay domestic debt, Funes (1999) estimated that net public savings from domestic debt repayments would have become positive and significant (0.2 percent of GDP) from year 2000 onwards, as sterilization costs in 1999 would have been equivalent to the sum of principal repayments and interest rate savings.

targeting should be accompanied by adequate monitoring mechanisms (para. 3.10). Integrating the social funds and the municipalities to the IFMS is essential to promote their transparency, facilitate their supervision and enhance their capacity to target the poor.

- *Eliminating distortions that emerged following Mitch in the division of labor among funds.* Promoting consolidation rather than further dispersion and institutional fragmentation by creating more social funds is essential. The immediate phasing out of low-performing funds—other than the three big ones FIS, FONAPAZ, FSDC and, perhaps, FOGUAVI—and increased coordination and specialization of the remaining ones should lead to the adoption of uniform technical standards, preventing overlapping activities and speeding up project approval and execution. Whereas the merger of smaller funds should be considered, care should be taken not to create one large and administratively costly super-fund. Specialization by type of project should prevail over departmental focus.

CHAPTER II

PROGRESS ON PUBLIC SECTOR MODERNIZATION

A. The Origins of Reform

2.1 The signing of peace in December 1996 generated strong pressures to modernize the role of the state—implementing the Peace Accords and advancing in the fight against poverty would not be possible without reforming the way the public sector performed its functions. Guatemalan social indicators were among the lowest in LAC and were improving very slowly, reflecting persistent under-investment in social services and basic infrastructure, especially in rural areas. Governance problems, centralization and inefficiency plagued most public sector activities. Anecdotal evidence from the social sectors, for example, suggested: massive overpayments for medicines by the public sector relative to market prices, woefully inadequate inventory controls, serious anomalies in cash management, endemic arrears to suppliers, little if any focus on results, and an overwhelming distortion of actual (vs. budgeted) spending in favor of the Capital City and hospitals.

2.2 The Government was aware that post-conflict attempts to promote poverty reduction, while fulfilling targeted peace spending, could be frustrated by serious shortcomings on several institutional fronts. On the revenue side, poor tax administration and weak enforcement resulted in low tax compliance. The private sector successfully resisted new tax measures by arguing that the public sector was inefficient, corrupt and unable to productively use additional revenues. On the spending side, the public sector was excessively centralized, with a weak institutional and financial structure, making it extremely difficult to effectively reorient spending toward priority areas. This posed a serious challenge to the implementation of the Peace Accords, especially those that required expenditure switching and improved targeting. On the civil service side, the public sector was overstaffed, with an uncompetitive salary structure that made it difficult to attract competent and motivated staff. These constraints contributed to weak governance throughout the public sector, exacerbated by inadequate access and inefficiencies in the judicial system. In short, an inefficient and ineffective public sector posed a formidable obstacle to the implementation of the Peace Accords.

2.3 Conscious of these weaknesses, the Government adopted a comprehensive public sector modernization program focused on six key areas: (i) tax administration reform; (ii) privatization of public enterprises; (iii) institutional and financial expenditure management reform; (iv) civil service reform; (v) decentralization; and (vi) judicial reform (World Bank, 1996a). The first two

Box II.1 The New Regulatory Framework

- ❖ *Executive Branch Law (Decree 114-97)* clarifies functions and responsibilities by Ministry and Secretariat and sets new regulations for SFs.
- ❖ *Organic Law of the Budget (Decree 101-97)* contains the legal framework for key financial reforms in budget management, decentralization and transparency, and in outcome-oriented capital and current spending.
- ❖ *Redefinition of Treasury Functions (AG 14-98)* sets Treasury as the single entity authorized to make Government payments.
- ❖ *CFACI Law (AG 271-97)* provides a single window to speed up loan approvals; *the Grants Norm (AG 389-97)* sets procedures for registering grants.
- ❖ *IFMS Law (forthcoming)* will provide a framework agreement for consolidating ongoing financial management reforms.
- ❖ *Public Investment Law (forthcoming)* will establish a decentralized National Investment System (NIS), setting pre-investment and evaluation norms, and linking SFs to the IFMS.
- ❖ *Procurement Law (forthcoming)* will simplify procurement procedures and make them compatible with international standards.
- ❖ *Law of the Comptroller's Office—CO (forthcoming)* will provide functional autonomy to the CO and support its administrative reform. Together with the forthcoming *Probity Law*, it should help reduce scope for corruption.

components were discussed in Chapter I. This chapter evaluates progress in implementing the Government's public sector modernization program, focusing on financial management and institutional reforms, progress in decentralization, and the need to deepen reforms in the civil service and governance.

2.4 The New Framework. A key element of the Government's public sector modernization program has been the adoption of a new framework supported by new regulations (Box II.1). The new framework has two building blocks: a horizontal one, which would restructure the institutional macrostructure of the public sector, and a vertical one, which would modernize financial management through an integrated financial management system. After three years of reform, there has been remarkable progress in financial management but only partial and largely *ad hoc* progress on reforming the institutional macrostructure.

2.5 Progress in reforming the institutional macrostructure has been partial (CIEN,1999c). Under the 1996 Program for the Modernization and Strengthening of the Executive, the Government intended to cut the number of ministries by a third, eliminate redundant ministerial units, de-concentrate their functions outside Guatemala City, and transfer most of its public investment execution functions to sub-contracting schemes with the private sector. Accordingly, a new Law of the Executive was approved in 1997, but lack of consensus within the Government resulted in only a relatively minor redefinition of ministerial functions and the establishment of only *ad hoc* coordination mechanisms among the social funds. No single ministry was eliminated, while pilot and partial de-concentration took place only in the Ministries of Education and Health. Even these efforts were more due to the need to meet IFMS technical requirements rather than to the effective transfer of decision-making power to lower level ministerial units. Reforms were more successful, however, in redefining the public/private service provision mix in a number of areas, including road and bridge rehabilitation, school construction, and rural electricity and telephone provision.

2.6 The IFMS. Progress in reforming financial and control management has been impressive, though significant challenges remain. The new IFMS (SIAF by its Spanish acronym), is a modern public sector financial management system aiming to increase the efficiency, accountability and transparency of public spending and support the decentralization to line ministries of the primary responsibility for managing sector resources to help improve the delivery of public services. It combines efforts in the key areas of budgeting, accounting, cash management, debt management, auditing, and procurement (Box II.2). The principal integrating factors for the system are a commonly shared and reliable data base, standards and procedures for recording and reporting financial data in the accounting sub-system, and an open mini/microcomputer based information technology system capable of communicating the data across the sub-systems. Full implementation of the IFMS permits a real time and single entry of data into the system to all users. New legislation and norms help protect its coherence, reflecting a common aim to improve the efficiency, effectiveness, and transparency of financial operations.

Box II.2 The First Steps of the IFMS

In addition to the new legal framework (Box II.1), most of the design work in major sub-components has been completed and is under implementation:

- ❖ **Budgeting.** A new budget classification has been designed and implemented; the 1998 budget was formulated with a new budget execution manual based on a methodology of programming by results, including physical and financial indicators;
- ❖ **Accounting.** A new Plan of Accounts has been developed based on the new budget classifications, new accounting manuals and accounting software; training of staff was completed for the introduction of the new accounting system in 1998;
- ❖ **Cash management.** A monthly cash-flow programming system has been adopted to better reflect budget execution projections and facilitate timely payments; the multiplicity of government cash accounts has been reduced aiming to eventually create a single government account; payment procedures have been simplified by reducing reliance on checks;
- ❖ **Procurement.** A major study has been completed, legislation drafted and detailed plans developed for a complete reorganization of the public procurement system;
- ❖ **Financial management de-concentration.** The Government expanded the number of pilot agencies to include the Ministries of Communications, Public Works, and Transport, and Foreign Affairs; pilot ministries (MOE and MOH among them) now account for 60 percent of public expenditure;
- ❖ **Information technology.** An innovative, integrated software system to support the new accounting system was developed and successfully tested; and
- ❖ **Training.** Over 1,600 civil servants have been introduced to the new system and a training program established with national universities.

2.7 The main pervasive shortcomings in public sector financial management and auditing that the IFMS addressed were:

- financial administration highly centralized within MIFIN, affording line ministries little scope to plan or manage their budgets and *ad-hoc* decisions;
- financial management based on tight, daily control over cash spending, especially given revenue uncertainties and the almost non-existent financial capacity of line ministries;
- financial administration supported by an outdated and inconsistent legal framework;
- inefficient and administratively costly procedures governing public funds;
- financial decision-making based on unreliable, fragmented, incomplete or obsolete data;
- disparate information technology, purchased in an *ad hoc* and uncoordinated way, leading to a multitude of non-communicating systems within the public sector;
- financial administration carried out by a small number of staff, many lacking the adequate training or experience to perform their jobs;
- inadequate auditing of accounts and an audit backlog of several years, undermining the sense of public accountability; and
- lack of public expenditure monitoring,

especially targeting on poor areas and priority needs.

B. Early Benefits from Public Sector Modernization

2.8 **Overall Efficiency Gains.** After three years of reform efforts, several significant results are emerging (Table II.1), with Guatemala now among the leaders in financial management reform in the world:

- Financial transactions are entered once into the public accounting system at the location where they originate and reported instantaneously by Y2K compatible electronic means.
- Big reduction in prices paid for supplies (10-70 percent) due to a better procurement system and shorter payment procedures, substantially cutting processing times and steps (eliminating premiums built into prices to reflect inflation or bribes by suppliers to speed payments).
- Electronic fund transfers have increased from near zero in 1996 to 50 percent of public sector payments in 1998, and are expected to cover nearly all payments in 1999. This reduces the time and transaction costs and lost/stolen checks.

TABLE II.1 IFMS Performance Indicators

	1996	1998
A. Budget		
Elaboration of quarterly report lag (months)	3	Real Time
Steps to register executed spending	150	12
Budget specialists trained (No.)	0	540
B. Accounting		
Public bank accounts (85% at BOG) – (No.)	1,300	600
Elaboration of financial report lag (months)	3	Real Time
Public institutions with integrated accounting (No.)	0	16
Accountants trained (No.)	0	486
C. Treasury		
Revolving funds integrated to unique account (No.)	0	100
Floating debt payment lag (average days)	90	3
Floating debt transactions A-B-C (No.)	100,000	40,000
Checks issued per month (No.)	Thousands	<100
Bank's control of public salary payroll (%)	0	100
D. Auditing		
New norms issued/applied (No.)	-	Completed
Auditors trained (No.)	0	616
Internal audits (No.)	363	N.A.
E. Procurement Costs (in Q)		
Medicine suppliers (No.)	160	45
Basic list of medicines (No.)	1,400	45
Distilled water	6.87	1.60
Clorhexidine	235	131
Lidocaine	11.87	3.30
Metronidazol	4.14	2.25
X-ray film	10.31	4.23
Mammography services	8.59	2.20
School desk	75.00	60.00
School cookie	0.30	0.25

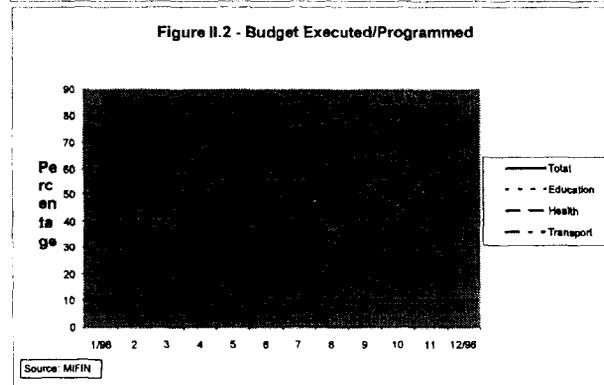
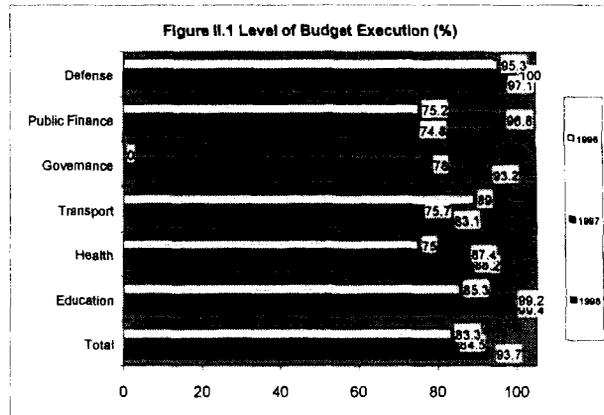
Source: MIFIN

- Once a payment is authorized by a line agency, MIFIN executes it within an average of 72 hours. Arrears to suppliers have been eliminated.
- The unique relational database provides immediate and detailed information on all recorded financial transactions, on cash and accrual basis, thus providing an audit trail, timely budget execution and fiscal accounts information for managers. Legislators, private citizens, NGOs, and other stakeholder can access proposed and executed national budgets at several computer sites in Guatemala and through the Internet, thus providing information on the use of tax revenues.
- Software is being developed to track procurement and management of inventories and fixed assets, with plans to make information on contracts and prices paid available on the internet.
- Reduced scope for fraud and corruption: administrative discretion in payments has been limited considerably; an audit trail exists instantaneously on all transactions available to internal auditors and to the Comptroller's Office; the reliance on checks and paperwork in general has been cut sharply; public procurement is now conducted on the basis of bids rather than price quotes from a minimum list of authorized (often phantom) suppliers; prices paid for goods and services can be rapidly compared across public agencies.
- The system is working closely with the new tax administration authority (SAT) and synergies are being exploited to cross check activities of suppliers and private banking.

- The IFMS also proved to be a valuable disaster management tool following the Mitch emergency.

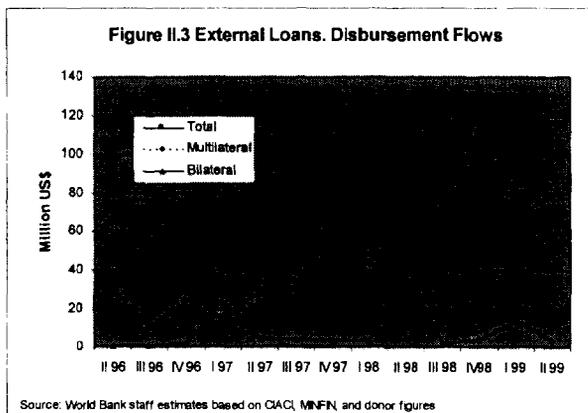
2.9 Effectiveness Gains in Budget Management. Major improvements in operational aspects of the budget occurred during 1996-98.

- Arrears on the floating debt, a major budgetary distortion, were eliminated.
- Shortages of counterpart funds to external projects, a major bottleneck in the early 1990s, have been substantially reduced.
- The level of budget execution by the Central Government significantly improved from 83 percent to 94 percent of approved funds, with the Education Ministry achieving 99 percent (Figure II.1), a dramatic increase over 50 percent or lower rates prevalent in the early 1990s.



- Quarterly budget executed/planned significantly improved in 1998, as ministries quickly learned how to make best use of their requested resources, increasing from around 40 percent in the first quarter to over 50 percent in the last quarter (Figure II.2).

- Improvements in budget execution were partly due to significant increases in loan disbursements—annual disbursements more than doubled from US\$139 million to US\$329 million (Figure II.3).
- Through the *ad-hoc* government commission—CIACI—the Government was able to more than halve the average lag between Board and Congress approvals of IDB and World Bank loans (Figure II.4). By end-1998, the average lag had fallen to under 60 days. In the case of CABEI, the approval process has not improved and continues to take about 6 months (Annex II.F).



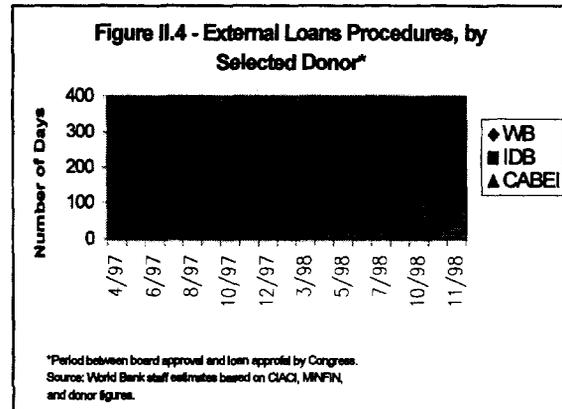
C. Remaining Challenges in Implementation of the IFMS

2.10 Although the IFMS has made a promising start, during implementation a few components—debt management, auditing and procurement—were scaled down without causing basic changes in overall goals. Delays in the debt management component were due to the Government’s desire not to risk a major

change in the processing of external assistance that could disrupt aid flows supporting peace implementation; delays in the auditing component were the result of disagreements over the legal framework and degree of autonomy of the Comptroller General’s Office; whereas delays in the

procurement component were the result of the Government's decision not to seek major amendments to Guatemala's Procurement Law fearing it could affect the sale of TELGUA and the rest of the privatization program. To ensure its long-term sustainability, the IFMS will have to deal with these lags, as well as to address new challenges, including:

- Key legislation is pending (Box II.1).
- The budgetary process needs to be further strengthened, especially by addressing: unrealistic macro assumptions and spending targets, overestimation of external disbursements, an excessive number of budget expansions throughout the year, insufficient monitoring of budget performance, and no integration of spending by social funds and municipalities. As discussed in Chapter I, most of these issues could be effectively addressed through the adoption of a Medium-Term Expenditure Framework.
- A disconnected procurement subsystem requires overhaul. As a result of the reforms, procurement is now based on bids, rather than price quotes from a list of authorized suppliers. This reform has produced substantial savings in official purchases, but it remains disconnected from the IFMS software, and significant institutional and legal changes are required to strengthen competition and quality control.
- Progress in the audit subsystem has been slower than anticipated. It still requires *ex-ante* review of all transactions.
- Local counterparts need to take over from the team of international consultants who have implemented the new system. This will require intensive training and an appropriate salary structure to retain qualified staff. The Government changed about 400 staff not meeting the skill requirements of the new system and used some flexibility in pay categories to fund higher salaries for new, more skilled staff. Over the longer-term, more sustainable arrangements are needed, which should be part of broader civil service reform.
- SEGEPLAN's Geographic Information System (GIS), designed to improve the geographic distribution of investment, is not linked to, and its software is not compatible with IFMS.



2.11 Recommendations. Based on the early experience, the remaining reform agenda and a detailed analysis comparing the IFMS with international best practices (Annex II.E), recommendations would include:

- *Maintaining a commitment to a single and coherent concept of financial management reform, process reengineering and information technology, as well as a strong and professional national team.* In this connection, it will be important to: (i) continue with the vertical expansion of the IFMS to the new subsystems—debt management, procurement, auditing, human resources and public investment; (ii) improve and integrate in the IFMS peace monitoring targets and policy benchmarks; (iii) integrate SEGEPLAN's GIS with the IFMS; (iv) maintain strong oversight, training and ownership of system implementation, with close collaboration between system managers to prevent discrete changes to regulations; (v) continue training for managers and staff in public institutions, professional associations and universities to strengthen domestic capacity to run the system; and (vi) disseminate results and progress to key stakeholders (legislators, cabinet, press, civil society, donors, etc.) to foster wide understanding and support for improved governance, decentralization and improved service delivery.

- *Completing the legal framework to underpin IFMS, as well as complementary legislation that can strengthen the impact of the reform program, including CGO, procurement and administrative probity laws.* While major progress has been achieved within the existing legal framework, the sustainability of the new system should be embedded in the IFMS Framework Law. Stronger CGO legislation should approve *ex-post* review procedures, procurement legislation should constraint the often-abused “open contracts” rules to limit exceptions, while the administrative probity law should codify and strengthen penalties against civil servants involved in corruption.
- *Fully integrating external and domestic debt management needs.* The recent decision to opt for UNCTAD’s SIGADE software system is appropriate since the software is fully compatible with the IFMS information system, but domestic debt also needs its own new system.
- *Developing an MTEF linked with IFMS and adopting the recently approved IMF Code of Good Practices on Fiscal Transparency (Box II.3).*
- *Focusing on delivering early and tangible results as the IFMS expands horizontally to other ministries, social funds and pilot municipalities.* Being able to show cost reductions, reduced reporting times and less burdensome processing steps can help to build support as financial management is decentralized.
- *Reconsidering the agenda of pending horizontal institutional reforms.*

Box II.3 The IMF Code on Fiscal Transparency

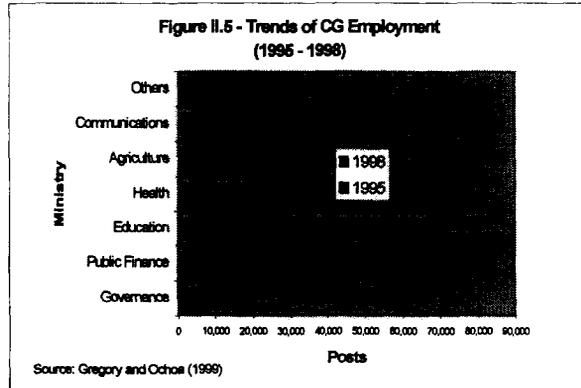
Because of its fiscal management expertise and universal membership, member countries decided to let the IMF take the lead in drafting a new code for greater fiscal transparency. An Interim Committee was created in the September 1997 Annual IMF/World Bank Meetings in Hong Kong, and the draft was finally adopted in the Annual Meetings of September 1999. Fiscal transparency makes a major contribution to preserve stabilization efforts and good governance, leading governments to be more accountable for the implementation of fiscal policy, and thus helping them to strengthen their credibility and public understanding of macroeconomic policies and choices. The Code is based around two objectives: (i) Information on government activities should be provided to the public, budget preparation, execution and reporting should be undertaken in an open manner; and (ii) fiscal information should be subject to independent assurances of integrity. Adopting the Code is consistent with the implementation of a MTEF (Box I.5). Its main operational guidelines are:

- ❖ **Clarity of Roles and Responsibilities.** The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined; there should be a clear legal and administrative framework for fiscal management.
- ❖ **Public Availability of Information.** The public should be provided with full information on the past, current and future fiscal activity of the government, and an annual statement should be published as an annex to the annual budget giving a description of the nature and fiscal significance of contingent liabilities and other quasi-fiscal activities (Box I.4).
- ❖ **Open Budget Preparation, Execution and Reporting.** The budget should specify fiscal policy objectives under a consistent macroeconomic scenario, while identifying major fiscal risks, and procedures for the execution and monitoring of approved expenditures. Fiscal reporting should be timely, comprehensive and reliable, clearly explaining deviations from targets.
- ❖ **Independent Assurances of Integrity.** Public and qualified independent scrutiny should be developed by a national body, probably appointed by Congress, with possible external advise. Such group (agency) would have the responsibility to provide timely reports to the public on the fiscal performance and financial integrity of accounts.

The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. Many countries may not be ready to implement the Code, but the IFMS has placed Guatemala with a unique opportunity to adopt it.

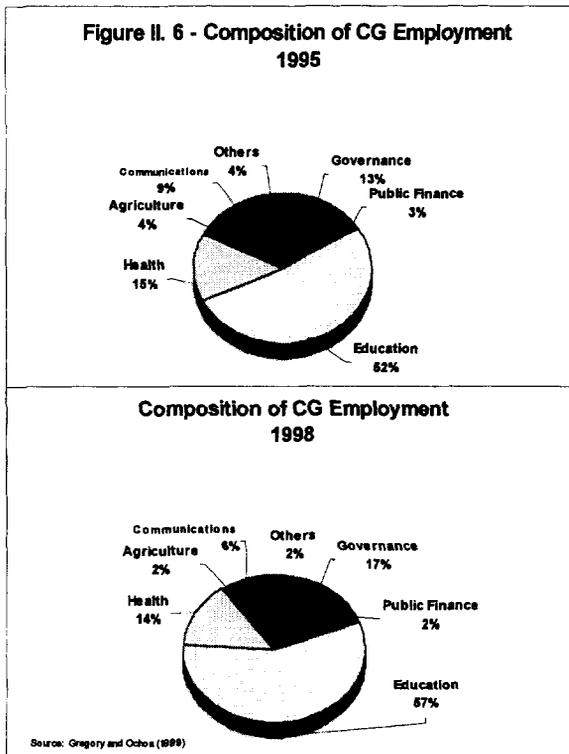
D. The Missing Link of Public Sector Modernization: Civil Service Reform

2.12 Comprehensive civil service reform remains the critical missing link in the Government's public sector modernization program, and it is a commitment under the Accords. Reforms to date are having a major impact on the efficiency of Guatemala's public sector, but they also have important implications for the structure of the civil service and will be difficult to sustain without a more modern and flexible civil service regime.



2.13 Public sector employment is affected by inadequate legal and institutional frameworks: human resources management largely relies on *ad hoc* procedures, there is no single database for public employment, the civil service law is outdated, salary levels are compressed, skewed against higher-skilled categories and uncompetitive with the private sector. In addition, modernization is creating new demands for higher-skilled and better-trained staff. For instance, sustainability of IFMS depends on attracting and retaining local staff with the appropriate skills, especially given the planned departure of the international consultants supporting the project.

2.14 **The Strategy.** The Government initially adopted a comprehensive approach to civil service reform, but was unable to implement it, relying instead on discrete and non-legal changes to increase the efficiency and flexibility of the civil service. The Government's approach sought to amend the civil service law and conduct a census of public employees. As horizontal reforms progressed, it aimed to reduce redundant workers based on the elimination of overlapping functions, decompress the salary and wage structure, reinforce controls on public sector employment—hiring, recruitment, promotion and training—procedures, and reduce ONSEC to a normative role, while creating an apolitical Civil Service Commission to oversee the implementation of new employment norms (World Bank, 1996a). This comprehensive approach, however, was derailed when the key amendment to the civil service law proved controversial and it could not mobilize sufficient political support for its passage.



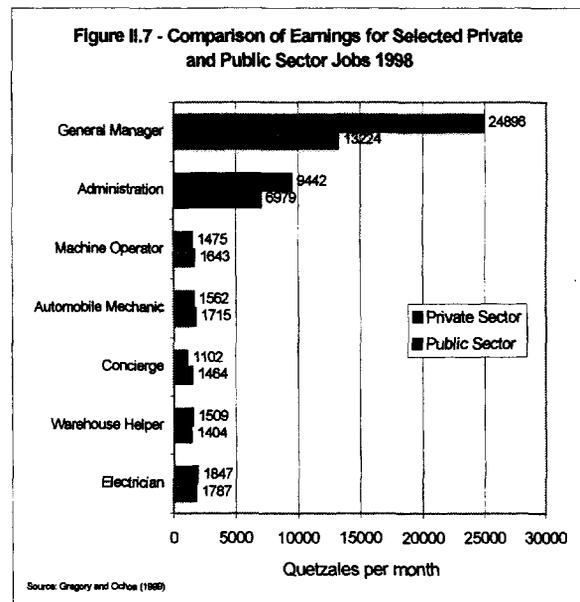
2.15 **Public Employment Trends.** The lack of reliable and centralized data continues to prevent a full assessment of net public employment trends (Gregory and Ochoa, 1999). The two sources of data are MIFIN for posts proposed in the budget, and ONSEC for Congressionally-approved budget posts, but both sources differ widely. In 1998, DTP estimated a total of 146,220 employees, well below the total of 155,543

employees reported by ONSEC (Statistical Appendix, Table 32). These figures do not include part-time and hourly workers, temporary 029 workers, gender decomposition, and positions in decentralized institutions and state enterprises. ONSEC estimates are higher than those submitted by DTP because not all budgeted posts are actually filled once they are approved, but residual funds are used by ministries to hire employees under temporary 029 contracts. Also, staff working on externally-financed projects are recorded *ex-post* under the new IFMS budget reclassification norms. ONSEC records also include staff participating in the voluntary retirement programs, but who still remain on the payroll. Although there is no central record of temporary 029 positions, a major gap in public employment data, there is no doubt they have significantly increased under the present administration.

2.16 Despite data limitations and the lack of progress on the legal front, the Government was able to rely on other mechanisms to restructure public employment in line with peace priorities (Figures II.5-6). Three ministries significantly reduced their staff—Transport, Agriculture and Finance—but this was offset by increases in two ministries mandated by the Accords, Education and Governance. Major reductions occurred in the Ministry of Transport—4,200 positions representing a third of its 1995 labor force—as a result of contracting out road maintenance services and the concessioning of the postal services. Agriculture cut its staff by about one half, or 2,500 positions, as a result of adopting a normative rather than implementing role. MIFIN eliminated two departments—Internal Revenue and Customs—but the net employment effect will only be quantified once the voluntary retirement program is completed. Conversely, in line with peace commitments, the Ministry of Education collapsed 48 internal units into 17, while increasing its employment by 11,000 budgeted positions, mostly urgently-needed PRONADE teachers. As a result it raised its share in total employment from 52 to 57 percent. Governance increased budgeted positions by 7,000 due to creation of the National Civil Police.

2.17 **Severance Payments.** There is no reliable data on the financial impact of the retirement programs, but the payroll has declined as a proportion of current expenditures, thus suggesting improved efficiencies in the Government. In December 1997, MIFIN estimated the overall cost of voluntary retirements at US\$48 million (Statistical Annex, Table 33), but it had no accounting of all employees separated or of salaries and fringe benefits actually paid to retired workers through the payroll. Efficiency improvements are also claimed by Authorities for the significant expansion in services delivered reported by most ministries, including those affected by labor cuts, but they are hard to quantify except for increases in coverage of education and health (Table III.1).

2.18 **Wage Trends.** Although low salary levels compared to the private sector continue to prevent Ministries from attracting talented and professional staff, limited decompression of wages took place. Although the ratio of low-skilled (conciierge) to high-skilled categories (general manager) decreased from 0.13 to 0.11, such decompression might have been stronger once bonuses and other fringe benefits are included. A closer public-private sector approximation at the minimum categories appear more likely than at the maximum levels. Whereas in 1995, low



skilled wages in the public sector were as much as 100 percent higher than those in the private sector, in 1998 they were only higher by 33 percent (Figure II.7). In a more moderate shift, private sector salaries for upper managerial categories ranged from 33 to 100 percent above those in the public sector, not much different from the ratios observed in 1995 (Gregory and Ochoa, 1999). Two noticeable exceptions, however, are the SAT and the new national police. Whereas the ratio of the highest to the lowest salary in the civil service structure is 14x1, at the SAT is 28x1; and the gaps are even greater at the top, as the SAT entry level for technical personnel is 3 times greater than the civil service maximum, not including performance bonuses for specific activities equal up to 30 percent of salary. For its part, salaries for members of the new national police doubled and benefit from a set of five new performance bonuses.

2.19 Distortions in the wage structure still prevail due to an outdated civil service law. Although the Government has not submitted to Congress a new Civil Service Law, there are signs of important changes in the labor market: (i) the number of public employees delivering essential services has been reduced to a minimum with the privatization of state companies; (ii) the estimated number of public employees adopting the voluntary retirement program is significant—15,619 employees representing about 10 percent of the public labor force (Gregory and Ochoa, 1999); and (iii) labor mobility has significantly increased, as the increasing number of 029 contracts proves it. Management, however, continues to be constrained by the legal recourse to *emplazamientos*, which effectively blocks the exercise of managerial prerogatives in personnel management.

2.20 **Recommendations:** Civil service reform remains the Achilles heel of public sector modernization, and is essential to sustain and consolidate the reforms made to date. Most measures included in the Government's original strategy remain valid, but should also consider additional elements:

- *An emergency decree to cancel vacancies once severance benefits for retired workers still on the payroll are completed.*
- *An urgent census of public employees.*
- *An amendment of the civil service law aimed to: (i) create a new civil service career path; (ii) reform the public sector salary system through a competitive wage structure and norms promoting labor flexibility; (iii) redefine the role of unions; and (iv) redefine *emplazamiento* procedures for dispute settlement, limiting appeals to the Labor Courts.*
- *A new civil service career which would need to: (i) create a human resources system at the IFMS to develop a centralized census of all public employees, their salaries, benefits and severance payments; (ii) transform the actual Junta Nacional del Servicio Civil into an apolitical Civil Service Commission whose term should go beyond the electoral cycle, with its main role to be the final arbiter of personnel disputes; (iii) set new standard job descriptions/staffing needs per ministry, new procedures for hiring, recruitment, promotion and training, and performance benchmarks for each position; and (iv) reconsider ONSEC's functions from an operational to a normative role.*
- *Reform the salary and benefit system.* The new salary system should not attempt to define a single salary structure, but rather decentralize its definition per ministry/institution, at least for professional and technical categories. It should also monetize most benefits, set limits to contracting under category 029 so as to prevent abuses and, in support of the decentralization process, design bonuses and fringe benefits to induce professional personnel to accept assignments outside Guatemala City.
- *Assess the fiscal impact of comprehensive civil service reform, including the new salary and benefits structure, training needs and severance payments.* Such study should also cover autonomous and decentralized state entities.

E. Decentralization through Deconcentration and Municipalization

2.21 Implementation of the Peace Accords requires improved coverage of basic social services and infrastructure, especially toward isolated rural areas. Decentralization was seen as a natural way to expand coverage, improve targeting and reduce the expenditure bias toward large urban areas, especially the capital. Although the Government has not articulated a comprehensive and coherent longer-term decentralization strategy, its decentralization efforts have focussed on deconcentration of selected public sector functions and a strengthening of the financial autonomy of municipalities. The Government has made only limited progress in deconcentration but substantial progress in transferring resources to the municipal level.

2.22 Although there has been some progress in deconcentrating government functions from Guatemala City toward a few pilot ministerial units, which was required by implementation of the IFMS, these efforts have been modest and still preserve the hierarchical relationship between the Central Government and units in the field. These efforts included: (i) requirements under the IFMS to create IFMSITOS (small, administratively decentralized ministerial pilot units); (ii) partial internal deconcentration in the Ministries of Education, Health and Agriculture; (iii) formal decentralization of ministerial functions to decentralized line programs, such as education to PRONADE (Box III.1) and rural health services to IAHS (Box III.2); (iv) formal transfer of public investment execution to social funds, e.g., school building by the MOE to the FIS and FONAPAZ, and water and sewerage projects to municipalities/INFOM by the MOH; and (v) partial transfer of rural roads rehabilitation and maintenance to selected municipalities in the department of San Marcos, as part of a pilot World Bank-supported project.

2.23 There has been considerable progress in strengthening the financial autonomy of municipalities. Municipal elections were reestablished in Guatemala soon after the transition from military to civilian rule in 1985. The 1985 Constitution established a transfer of 8 percent of Central Government current revenues to municipalities. Up to 1995, Governments had not complied with the full transfer and amounts transferred suffered frequent delays. Transfers to municipalities were strengthened during peace negotiations in 1995, when a 1 percentage point of the value added tax (VAT) was earmarked for municipalities. Since 1996, other measures have been taken to strengthen municipal finances, including: (i) helped by the IFMS, compliance with the timely transfer of 10 percent of general revenues to municipalities, a higher level than in any Central American country; (ii) creation of *ad-hoc* committees in the regional Development Councils (DCs) with an active participation of municipalities; (iii) supported by a World Bank/UNDP program, a gradual increase in the number of municipalities that are now able to administer their own financial resources, from 10 in 1995 to 52 in 1999, tripling the resources they had received in the past three years (Rojas, 1999); and (iv) successful development of pilot models of financial cooperation between DCs, social funds, municipalities and local communities. By law, 80 percent of the constitutional transfer and 90 percent of the VAT transfer must be allocated by the municipalities to investment in social and basic infrastructure (Rojas, 1999). Municipal governments have not increased their own locally collected resources significantly, relying almost exclusively on the Central Government transfers.

2.24 While there has been important progress in the decentralization approach adopted by the Government, a number of important obstacles to further and effective decentralization remain:

- Ministries and social funds, including those that are taking steps to deconcentrate some of their functions, still face considerable resistance to change. As a result, deconcentrated units have limited political and financial decision-making power. In the case of FONAPAZ, the fund has created deconcentrated executing units in Huehuetenango (DECOPAZ) and San

Marcos (under the Local Development Program), but their impact remains constrained by the lack of effective delegation of decision-making powers and limited autonomy (World Bank, 1997b).

- The SEA Accord calls for a new legal framework through a reformed Municipal Code, in order to strengthen and clarify the functional role of municipalities. The revised Code should also strengthen the accountability of municipalities, since unlike the social funds which are scheduled to adopt IFMS accounting procedures in 2000, municipalities are treated under the present legislation as autonomous entities required to submit their budget to MIFIN for information purposes only, thus exempting them from full public accountability.
- The Central Government does not require nor collects budget execution data for municipalities (nor for the social funds). There is therefore no way to assess the extent to which municipalities are complying with the requirement to devote 80-90 percent of Central Government transfers to investment needs or the sectoral allocation of their spending.
- Only three social funds—FIS, FONAPAZ and FOGUAVI—are subject to partial audits by the Comptroller General's Office.
- With a few exceptions, DCs remain largely underdeveloped and lack autonomy from the Central Government. The legal framework for DCs is unclear, especially in terms of their functional autonomy and integration with municipal governments. The SEA Accord also calls for a revised legal framework for DCs.
- Guatemala maintains a long list of excises inherited from colonial times. The INFOM form for the collection of municipal revenues includes more than 150 different excises and more than 80 non-tax revenues, most of them negligible in terms of revenue raised, and with relatively significant reporting and administrative processing costs.
- There is some evidence that a few larger municipalities are turning to commercial credit lines that have an implicit state guarantee, raising income above central government transfers and their own revenue sources. These municipalities appear to be using the revenue transfers from the Central Government as collateral for commercial debt. For instance, Mixco, with a debt service/revenue ratio of 17 percent and INFOM transfers of Q140 million, has put together a commercial credit package of Q100 million (Rojas, 1999). Although the amount of sovereign debt guarantee to municipalities is not high at 0.3 percent of GDP nationally in 1998 (Funes 1999), if not controlled this practice may eventually undermine municipal fiscal discipline and create a potentially large implicit contingent liability for the Central Government (Box I.4).

2.25 Recommendations: Municipalities will continue to play a key role in Government efforts to expand service coverage and meet the needs of local communities. There is a need, however, to clarify and rationalize the role of municipalities in implementation of peace programs and their links with community-based programs, especially as many of these programs are donor-funded and at some point will need to be absorbed locally. The new Administration should consider articulating a longer-term and comprehensive decentralization strategy which, in addition to further ministerial de-concentration and decentralization of service delivery schemes such as PRONADE and IAHS (Boxes III.1-2), should consider *inter alia*:

- *Development of a new matrix of inter-government collaborative transfers.* As already being successfully piloted by the social funds, the Central Government should channel external resources to social and basic infrastructure investments and, for their part, municipalities and local community programs should provide not only matching resources (already recognized by multilateral institutions as counterpart funds to their loans), but define their role in areas they could realistically take over from the Central Government—e.g., maintenance and upgrading of rural roads—and the sustainability of projects. The pilot local development and rural roads programs in San Marcos and Huehuetenango are examples of efforts geared

toward a new decentralized model of collaboration between the Central Government, FONAPAZ, DCs, INFOM, municipalities and local communities.

- *Approval of a new Municipal Code and legal framework for DCs, required by the Peace Accords. This should include the need for financial discipline as a guiding management principle and municipal compliance with essentially the same accounting principles and rules that apply to the Central Government.*
- *Intensive training to build institutional administrative capacity at the municipal level in line with extension of the IFMS to the municipal level. The reforms should aim to ensure that by the end of the next Administration, two-thirds of municipalities are effectively managing and auditing—internally and externally—their own resources.*
- *Full and prompt integration of the social funds to the IFMS and amendment of the legal framework required to allow the auditing of their domestically-financed budget by the Comptroller General's Office.*
- *The replacement of the presently complex system of municipal excise taxes by a simple structure that only retains the most revenue-significant taxes.*
- *Regulation of the conditions under which municipalities can have access to, and rely on state guarantees for borrowing from domestic commercial sources or external sources.*

F. The Need for Improved Governance

2.26 International experience clearly shows the importance of good governance for effective development generally, and particularly for efficient public service provision. Recent empirical evidence finds a strong causal relationship between good governance and better development outcomes (Kaufman, Kraay and Zoido-Lobaton, 1999). Governance can be broadly defined as the traditions and institutions by which authority in a country is exercised. This includes: (i) the process by which governments are selected, monitored and replaced; (ii) the capacity of the government to effectively formulate and implement sound policies; and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them. Given such a broad definition, measuring governance in quantitative terms requires measuring subjective perceptions through surveys drawn from international risk-rating agencies and national residents. Although, as discussed throughout this report, many of the Government's recent public sector reforms are contributing to improved governance, international rankings still indicate that corruption (or the failure of governance) is a serious problem in Guatemala. It should be noted, however, that the most recent indices and rankings of the quality of governance do not reflect the recent reform effort. Although perceptions are slow to change, they nonetheless constitute a good measuring device to assess the impact of reforms.

2.27 Although there are no comprehensive diagnostic studies or reliable data on which to base a serious analysis of governance in Guatemala, international experience and conditions in Guatemala suggest that a future governance agenda should focus on four clusters of governance issues to guide the reform effort (Johnson, Kauffmann and Zoido-Lobaton, 1999):¹

- **Regulatory burden**, or the set of variables measuring the impact of regulations, e.g., the tax burden, or the credibility of the government's policies on business development;
- **Governance effectiveness**, or the combined perception of the quality of public service provision, e.g., the quality of bureaucracy;

¹ Two other possible clusters are: (i) voice and accountability, or the set of indicators measuring various aspects of the political process, civil liberties and political rights; and (ii) political instability and violence, or the combined perceptions on the likelihood of political destabilization by unconstitutional and/or violent means (Kauffmann, Kraay and Zoido-Lobaton, 1999).

- **Corruption** or the exercise of public power for private gain, also a symptom of the failure of governance; and
- **Rule of law**, or the indicators that measure the extent to which agents have confidence in and abide by the rules of society and include perceptions on the incidence of crime, the effectiveness and predictability of the judiciary and the enforceability of contracts.

2.28 Guatemala's weak judicial system has been detrimental to the rule of law. About half of the population does not have access to the judicial system. The system is cumbersome and inefficient. There are insufficient judges, rural lawyers, no justice centers in more than one-fourth of municipalities and no clear role assigned to the traditional (indigenous) dispute resolution mechanisms in the formal system. According to a recent survey, 88 percent of the population does not have confidence in the judicial system, perceiving it as inefficient, inadequate, corrupt and poorly managed (World Bank, 1999). Recent empirical research shows a positive relationship between the rule of law and government revenues, as well as an inverse relationship between the rule of law and the size of the unofficial economy. Guatemala appears among countries with the poorest rule of law, lowest Government revenues and highest unofficial economy (Johnson, Kauffman and Zoido-Lobaton, 1999).

2.29 The Government assigned high priority to strengthening the judicial system, seeing it as a key element of the peace process and the country's longer-term development agenda. With the support of the World Bank and other donors, it has been implementing a comprehensive judicial reform program, including: (i) strengthening the institutional capacity of the Judicial Branch; (ii) supporting the fight against corruption among staff in the judicial system; and (iii) strengthening access to justice through expanded infrastructure and access to the judicial system by indigenous populations.

2.30 **Recommendations.** Improved governance should be an important second-generation reform, both to improve Guatemala's development prospects but also as an essential complement to the public sector reforms underway. Defining and implementing a governance agenda is necessarily a complex and longer-term effort, which must be adapted to each country's circumstances and political reality. Many of the public sector reforms underway or planned should be integral parts of a governance agenda, including extension of the IFMS, an effective and autonomous SAT, improved accountability by the social funds and municipalities, civil service reform to create a professional and accountable public sector, and the judicial reform program. Other elements that could be considered include a major effort to deregulate the economy, increased transparency in the remaining privatization process and an improved regulation of already privatized activities, strengthening the autonomy, control and accountability of institutions such as the Comptroller General's Office, development and enforcement of codes of conduct for public officials, targeting of specific areas or agencies where corruption perceptions are high,² greater involvement of civil society in the monitoring of public sector activities and the development of a national integrity plan.

² A Bank survey of non-traditional exporters pointed to inefficiencies and corruption in customs as a major constraint on private sector activity (World Bank, 1996a).

CHAPTER III

MONITORING FISCAL REFORM: A REVIEW OF PEACE TARGETS

A. The Rationale for Peace Benchmarks

3.1 **Background.** Guatemala's Peace Accords are unique in that they attempt to engineer a fundamental shift in the country's development agenda, reversing a long-standing pattern of low social investments and exclusion. To do this, the Accords include a set of social and economic targets, which although relatively simple, require a major and sustained shift in public expenditure patterns. Most of targets are in the SEA Accord and the remaining ones are part of the Strengthening of Civilian Rule (SCR) Accord (Box I.1). Other Accords, such as the one on Indigenous Rights and Identity also feature cultural and gender commitments, but have no or negligible links with expenditure patterns or allocations. As argued in the previous two chapters, the Government has made important progress in public sector modernization and expenditure reform, which was considered vital for peace implementation. This chapter reviews progress in meeting key social and economic targets of the Accords. The Accords divide targets into fiscal and social. Fiscal targets, known as quantitative targets, also involve intermediate non-mandatory performance indicators, which are designed to keep track of gradual progress toward individual targets. They are intended to alert Authorities about possible deviations, allow them to take corrective actions and, in the case of significant lags, serve as a basis to reschedule/reprogram the original targets. Social targets, known as qualitative targets, refer to output or outcome-oriented targets.

3.2 **Main Features.** The set of agreed targets places similar emphasis on fiscal inputs (spending levels) as on social outcomes and outputs (e.g., literacy rates, gross coverage of primary education). The need to target increased spending stems from Guatemala's chronic under-investment in social and basic infrastructure, crowded-out by high military spending during the conflict years, and leading to the exclusion from the development process of large segments of the population, especially poor and isolated rural areas, and indigenous communities and women.

- The SEA targets a 6 percent growth rate. Bank studies show that the minimum growth rate needed to reduce the number of poor in Guatemala is 5.8 percent, slightly below the peace target, but well above average growth of 4 percent during pre-peace years (World Bank, 1995). The country's poverty reduction potential depends on the responsiveness of poverty to changes in mean incomes, i.e., the growth elasticity of poverty. Such elasticity, however, is inversely related to income inequality—countries such as Guatemala with high income inequality have a lower growth/poverty elasticity and typically require higher growth rates to offset growth losses arising from unequal income redistribution effects. Guatemala has the second most unequal distribution of income among 150 developing countries (World Bank, 1997a), and its growth/poverty elasticity (-1) is the lowest in LAC.
- In 1995, Guatemala had the second lowest rate of public investment as a share of total investment among LAC countries—11 percent (Burki and Perry, 1997) and the lowest share of Central Government expenditure in Central America—9.4 percent of GDP (World Bank, 1997b). As a result, the Peace Accords assigned high priority to increasing public investment.
- Among 7 social outcomes and outputs, six of them refer to literacy and coverage of primary education, infant/maternal mortality and polio/measles rates, whose potential gains would greatly affect the target populations (Table III.1). In 1995, overall adult illiteracy was 35.8 percent, but reached 72 percent among indigenous people and 53 percent among women; gross coverage of three years of primary education averaged 84 percent of the school age

Table III.1 Performance of Peace Monitoring Indicators

ORIGINE		CONDICION				
<i>Fiscal (% of GDP)</i>	Base 95		1997	1998	1999	2000
1. Growth Rate (%)		Target	4.2	5.1	6.0	6.0
		Actual	4.3	5.1 ^p	5.6 ^f	5.8 ^f
2. Tax Ratio	7.6	Target	8.6	10.0	11.4	12.0
		Actual	8.8	8.9 ^p	9.4 ^f	9.1 ^f
3. Health Spending	0.9	Target	1.0	1.1	1.2	1.3
		Actual	1.0	1.1 ^p	1.2 ^f	1.3 ^f
4. Education Spending	1.6	Target	1.9	2.1	2.3	2.5
		Actual	1.8	2.2 ^p	2.1 ^f	2.0 ^f
5. Public Security Spending	0.3	Target	0.3	0.4	0.4	0.5
		Actual	0.3	0.5 ^p	0.6 ^f	0.6 ^f
6. Judicial/Public Ministry Spending	0.3	Target	0.3	0.4	0.4	0.5
		Actual	0.3	0.4 ^p	0.5 ^f	0.5 ^f
7. Military Spending	1	Target	0.9	0.8	0.7	0.7
		Actual	0.9	0.7 ^p	0.6 ^f	0.6 ^f
8. Preventive Care (% of health budget)	38	Target	-	-	>50.0	>50.0
		Actual	43.0	46.0 ^p	49.0 ^f	52.0 ^f
9. Low Income Housing Budget (% of tax revenues)	-	Target	-	1.5	1.5	1.5
		Actual	-	1.5 ^a	1.6 ^f	1.5 ^f
10. Investment on Rural Development (Million of Q.)	-	Target	50.0	50.0	50.0	50.0
		Actual	-	265.9 ^e	329.3 ^a	>300.0 ^f
11. Investment on Rural Infrastructure (Million of Q.)	-	Target	300.0	300.0	300.0	300.0
		Actual	-	>300.0 ^e	>300.0 ^a	>300.0 ^f
<i>Social / Security</i>	Base 95		1997	1998	1999	2000
12. Literacy rate (%) (INE - 1994 Census)	64.2	Target	-	-	-	70.0
		Actual	66.4 ^e	67.4 ^e	68.6 ^f	69.3 ^f
13. Primary Education Coverage (three years - gross rate)	84	Target	-	-	100.0	100.0
		Actual	86.0 ^e	89 ^e	91.4 ^f	92.4 ^f
14. Primary Education Coverage (three years - net rate)	69	Target	-	-	100.0	100.0
		Actual	71.0	72.9 ^e	73.3 ^f	73.0 ^f
15. Infant Mortality Rate (deaths per 1000 living births)	39.9	Target	-	-	20.0	20.0
		Actual	38.5 ^e	37.0 ^e	35.3 ^f	33.3 ^f
16. Maternal Mortality Rate (deaths/100,000 women giving birth)	97	Target	-	-	48.5	48.5
		Actual	97.9 ^e	97.7 ^e	97.3 ^e	97.3 ^f
17. Poliomyelitis Cases (vaccination coverage)	80	Target	85.0	85.0	85.0	85.0
		Actual	84.1	88.0 ^e	88.0 ^f	88.0 ^f
18. Measles Cases (vaccination coverage)	83	Target	-	-	-	95.0
		Actual	74.0 ^e	79.0 ^e	84.0 ^f	84.0 ^f
19 Army Reduction (number of troops)	46,900	Target	31,423.0	31,423	31,423	31,423
		Actual	31,270.0	-	-	-
20 Military Police (number of members)	2,421	Target	Nil	Nil	Nil	Nil
		Actual	Nil	Nil	Nil	Nil

a. Assigned; e. World Bank staff estimate; f. World Bank staff forecasts PIB99: Q134,301.7 million

Sources: MIFIN, MINUGUA, Anderson (1999), Chinchilla (1998), Aceña (1998), Barillas and Valladares (1999)

Note: Preventive health includes water & sanitation. Shading means under achievement.

population, but indigenous males averaged only 1.8 years of schooling and females 0.9 years; infant mortality was 39.9 per 1,000 live-births, but reached over 55 in the poorest rural areas; and polio was eradicated in LAC in the early 1990s, but measles was still responsible for over 10 percent of deaths of poor children below 5 years old in the developing world (PAHO, 1998). Since both illnesses were responsible for infant deaths among poor children in developing countries in the 1980s, their inclusion in the Accords appears to respond more to a worldwide commitment to their full eradication, rather than to specific conditions in Guatemala. These social priorities are appropriate, but the targets are relatively modest by international standards (para. 3.3). Thus, in a number of instances specific targets are complemented by additional peace commitments. For instance, although peace spending is expected to benefit women, there has also been an effort to strengthen women's rights through the creation of a participatory body to improve the role of women, the Women's Forum (*Foro de la Mujer*) in 1997 and the Legal Defense Agency for Indigenous Women (*Defensoría de la Mujer Indígena*) in 1999. A similar case applies to indigenous peoples, where the Indigenous Rights Accord complements the efforts of the SEA Accord to improve development in indigenous communities.

3.3 International standards. Guatemala's peace targets may appear ambitious in national terms, but their gap with respect to international standards is significant, reflecting Guatemala's low social base and the modest revenue effort agreed in the Accords. For instance, in 1996:

- the average tax revenue ratio in Latin America was close to 14 percent when the Accords were signed, but Guatemala's target of 12 percent would only be reached more than half a decade later;
- average LAC public spending on health was 3.0 percent of GDP (World Bank, 1997), whereas the 2000 peace targets is only 1.3 percent of GDP;
- LAC countries spent an average 4.3 percent of GDP on education (Burki and Perry, 1997), whereas the peace target would require reaching only half of this figure;
- the illiteracy target of 30 percent appears a decade behind a LAC average under 20 percent (UNDP, 1998);
- maternal mortality rates in LAC averaged 31 per 100,000 in the mid-1990s (PAHO, 1998b); the Accords would require Guatemala to halve the 1995 maternal mortality rate, but even then it would still be 48.5 per 100,000; and
- Guatemala's infant mortality rate would be halved over five years to reach 20 percent, in line with the LAC average (22 per 1,000 live-births), but recent trends in a group of LAC countries with high mortality rates show that it took no less than 15 years to halve infant mortality rates (PAHO 1998b).

B. Overview of Progress

3.4 Overall performance in implementing peace targets has been mixed. In terms of quantitative inputs, with the exception of the tax ratio, fiscal measures adopted by the Government have ensured timely compliance with most spending targets, with minor deviations. In terms of social outcomes and outputs, however, performance has been less than satisfactory. Significant deviations from the original targets suggest the need to consider their rescheduling or, due to data limitations, their eventual reprogramming.

3.5 Fiscal inputs. Fulfillment of most public spending commitments reflects the Government's extraordinary effort to shift resources, partly resulting from lower military spending, toward social and basic infrastructure sectors. These increased spending levels,

however, will become unsustainable over the medium term unless tax revenues rise in line with peace commitments (para. 1.19). Until 1998, the degree of progress was as follows (Table III.1):

- Most targets in education, health, justice, military and public security, low-income housing, rural development and infrastructure expenditure were met. Spending on education, justice and preventive care are projected to be slightly below their 1999 target.
- Four targets—military, public security, rural development and infrastructure—featured over-compliance. In the case of rural investment, the Accords required a relatively modest amount, less than 0.3 percent of GDP.
- Growth was on track to reach 6 percent in 1998, but the economy lost dynamism in the second semester due to the threat of global recession, lower commodity prices, the impact of Mitch (especially in banana production), a severe credit crunch following lax monetary and fiscal policies, and difficulties in the domestic financial/exchange system. Liquidity and solvency problems in the financial system have led to a tightening of credit availability, as banks have protected themselves from bad loans. As a result, Authorities project growth of 3.6 percent in 1999, well below the peace target of 6 percent.
- Compliance with the tax-ratio target of 12 percent of GDP remains unsatisfactory and its recent rescheduling to 2002 might prove insufficient. The deviation from its intermediate target in 1998 was about 1 percent of GDP and, in the absence of any further tax policy measures, the gap is projected to reach above 2 percent of GDP in 1999. Meeting this target is essential to sustain peace investments (para. 1.19). The *Comisión de Acompañamiento* agreed to reschedule it to 2002 and to convene a National Fiscal Pact that would attempt to reach consensus on the fiscal measures needed.

3.6 Recommendations: The Peace Accords place considerable emphasis on meeting expenditure targets. While this is appropriate given Guatemala's history of low social spending, these targets would need to be complemented by qualitative goals and deeper reforms that can make these gains sustainable. For example:

- *Survey data are needed* to verify whether higher social and basic infrastructure spending allocations are indeed contributing to improved living standards among target beneficiaries: rural, poor, indigenous and female (including girls) populations.
- *Maintaining the budgetary shift toward a capital/current ratio spending of 0.55, with the exception of education, is as important as increasing overall spending levels in line with peace priority targets needs.* Otherwise, meeting the Government's share of sector spending could be explained by additional recurrent costs, such as salary increases.
- *Better data and integration with the Government's financial management system are required to assess the impact of social fund expenditures.* At present, official data only register as sector executed spending the amount of resources transferred from the Central Government to a specific social fund, but there is no information on the composition of executed spending by the funds (Chocano, 1999a), nor on their impact by type of beneficiaries. In 1997, transfers to social funds represented around 30 percent of public investment (para. 1.8), but due to inadequate data, compliance with targets can only be estimated indirectly through proxies.
- *Actual spending by municipalities should also be recorded by sector and integrated within the IFMS.* In 1997, the Constitutional transfer to municipalities represented 25 percent of public investment (para. 1.8). By law, 90 percent of earmarked revenues must be devoted to non-recurrent expenses, but there is inadequate information to assess compliance, how these resources are spent and their social or gender impact (para. 2.24).¹

¹ As the Ministry of Education has transferred the responsibility for classroom construction to the social funds and a large share of their investment has been devoted to school rehabilitation/construction, municipalities might conceivably share responsibility with local parent-teacher associations and NGOs in the future, leaving the Central Government to share the cost of counterpart funding for donor-financed projects, with the social funds gradually shifting their resources to a wider set of basic needs.

- A better geographic desegregation of sector spending is needed to ensure that resources are targeted to rural areas and where the poorest/indigenous populations live. Despite some improvements, budget allocations are still significantly biased toward Guatemala City and non-poor departments (Tables I.2-3).
- Private contribution to local development projects should also be registered. Some funds (e.g., FIS) have only recently started to consider private contributions as counterpart funding.
- The IFMS budget reclassification needs to be amended to enable an adequate monitoring not only of peace, but also expenditure-reform targets. The 1997 IFMS budget reclassification disrupted fiscal time-series and makes peace monitoring an extremely hard and time-intensive task. In the interim, significant statistical discrepancies remain (Box III.3).

3.7 Social indicators. Performance has improved, but only moderately in terms of social outcomes and outputs. In most cases, deviations from targets (represented by shaded areas in Table III.1) are significant and require their rescheduling or, due to data limitations, their elimination or substitution by alternative indicators (para. 3.9).

- **Literacy rate.** The CONALFA literacy program has led to an increase in literacy from 64.2 percent in 1995 to 67.4 percent in 1998 (Anderson, 1999). Illiteracy rates in indigenous populations, however, are 45 percent higher than in non-indigenous, and 32 percent higher among women than in men (UNDP, 1998, 1999). Despite this initial success, the program faces increasing difficulties in meeting peace targets due to: (i) geographic dispersion, ethnic and gender diversity, which makes it increasingly harder to identify and motivate the rural (mostly Mayan and women) illiterate population to register in the program; (ii) a low 37 percent approval or promotion rate from pre- to post-literate stage (Ralón, 1999)—a frequent problem among adult programs worldwide; and (iii) low availability of bilingual schools (literacy and school attendance are positively correlated) which can attract illiterate indigenous adults—there were 1,367 bilingual schools in 1995 (12 percent of total schools), growing by about 100 schools per year; and 9 out of 23 Mayan languages have no bilingual school (Comisión Paritaria, 1998).
- **Primary education coverage.** The target of 100 percent gross coverage of 3 years of primary education by 1999 requires rescheduling. It increased from about 84 percent in 1996 to 89 percent in 1998, i.e., an annual increase of 2.5 percent but below the 4 percent effort required to meet the peace target. The innovative PRONADE program (Box III.2), covered 75,603 new rural and poor (mostly Mayan) students in 1998 (Statistical Annex, Table 36). The female/male ratio, however, showed a slight improvement among indigenous and rural women between 1996 and 1998 (UNDP, 1999). Meeting the peace target would require a formidable effort not just in terms of expanding school infrastructure, but also in terms of the quality of the primary education provided: (i) the dropout rate in primary schools is

Box III.1 The PRONADE System

PRONADE (*Programa Nacional de Autogestión Educativa*) is a community-managed and decentralized program that aims to increase primary education coverage in rural areas, in line with peace commitments. In less than three years, PRONADE has 1,811 COEDUCAS (Education Committees of parents, created by *Instituciones de Servicios Educativos—ISEs*) and 3,771 teachers working with 132,985 primary students in 19 departments. The program focuses on 4 priority departments: Alta Verapaz, Huehuetenango, San Marcos and El Quiché. Despite considerable progress in terms of low desertion rates and higher teacher attendance, and increased involvement by parents, expansion of PRONADE is facing challenges (CIEN/PREAL, 1999c):

- ❖ More teachers are needed: The student/teacher ratio of 49 in rural schools is too high, requiring a large number of multi-grade schools;
- ❖ PRONADE infrastructure needs to be strengthened—half of the schools are in bad shape;
- ❖ Administrative procedure for making payments to COEDUCAS are cumbersome and lengthy;
- ❖ The division of labor between ISEs and COEDUCAS is not clear; and
- ❖ Salary levels and benefits for PRONADE teachers are lower than for teachers in traditional schools.

extremely high (7.7 percent in 1999), which almost fully erodes annual progress on this indicator; (ii) repetition rates in primary school are also very high (7.9 percent in 1999), and represents an annual cost for the state of US\$13.2 million; (iii) the average number of 7-12 year old rural students per teacher (49) is high by international standards (40), which contributes to the high dropout and repetition rates (Statistical Appendix, Table 41); (iv) coverage and average school years attained are still extremely low in five out of six departments with high density of indigenous rural populations: Totonicapán, Sololá, Alta Verapaz, Quiché and Huehuetenango (Statistical Appendix, Table 39); and (v) low coverage remains critical among rural girls (Chesterfield and Rubio, 1998).

- **Infant mortality rate.** INE data show that infant mortality is decreasing, but not enough to meet the target. From 39.9 deaths per 1000 living births in 1995, it decreased to 37 in 1998 and should reach 33.5 by 2000, well short of the target of 20. Infant mortality is positively correlated with ethnicity and rural poverty (Barillas and Valladares, 1999). The main causes of infant deaths remain respiratory problems, diarrhea, heart problems, premature birth and chronic malnutrition. Malnutrition also has a positive correlation with school dropout, 0.66 (UNDP, 1998). Nine departments account for about 60 percent of infant deaths: San Marcos, Quetzaltenango, Huehuetenango, Quiché, Escuintla, Totonicapán, Alta Verapaz, Chimaltenango, and Suchitepequez (Figure III.1). Infant mortality is positively correlated with higher public spending, but only if services are well delivered and managed—especially through enhanced local capacity and participation in preventive health—and combined with the expansion of water and sewerage

Box III.2 The IAHS

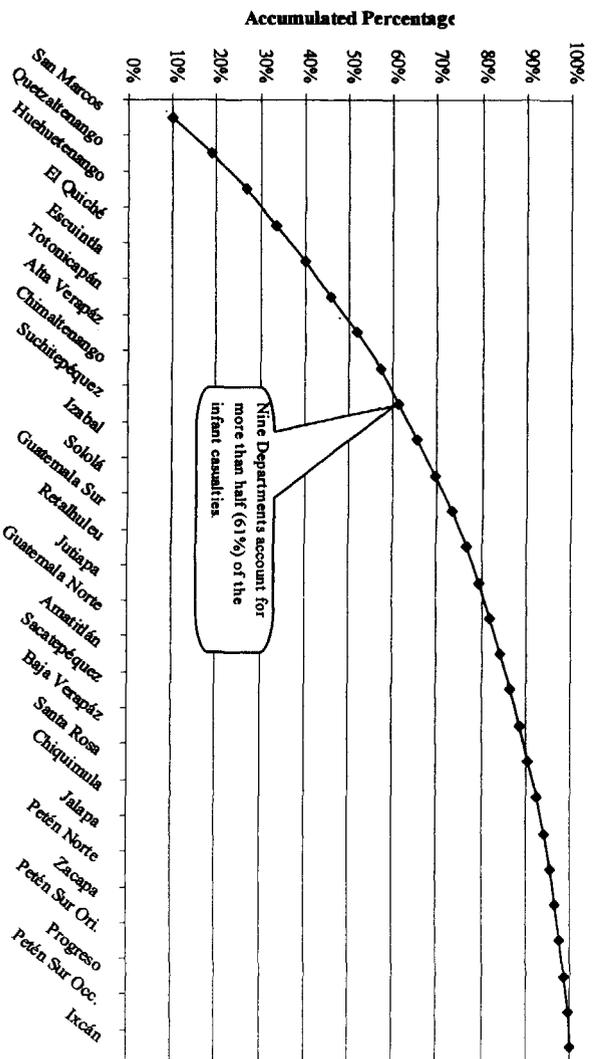
The IAHS is a pilot de-concentrated program implemented by the Ministry of Health with local organizations to expand coverage of mostly preventive health services among rural areas, in line with peace commitments. It provides a basic package of basic health services through local NGOs, sometimes combined with water and sanitation support. The annual per-capita cost of the package is US\$6, less than half the international average of US\$12-13. After less than 2 years, the IAHS is working in 112 localities in 8 departments, with the support of 73 NGOs reaching 600,000 beneficiaries. Despite its rapid success and no apparent need for new health infrastructure, the IAHS faces a number of problems (Chinchilla, 1998b):

- ❖ the program needs professionalization, as it remains too dependent on voluntary work, which does not guarantee its sustainability in the medium-term;
- ❖ the level of execution and number of participant NGOs is limited;
- ❖ contracts with NGOs are limited to 1 year, which should be extended to provide NGOs with more stability;
- ❖ repayment procedures to NGOs are lengthy (3 months), and cumbersome; and
- ❖ supervision and auditing of local projects is based on technical and financial, rather than on in-situ verification.

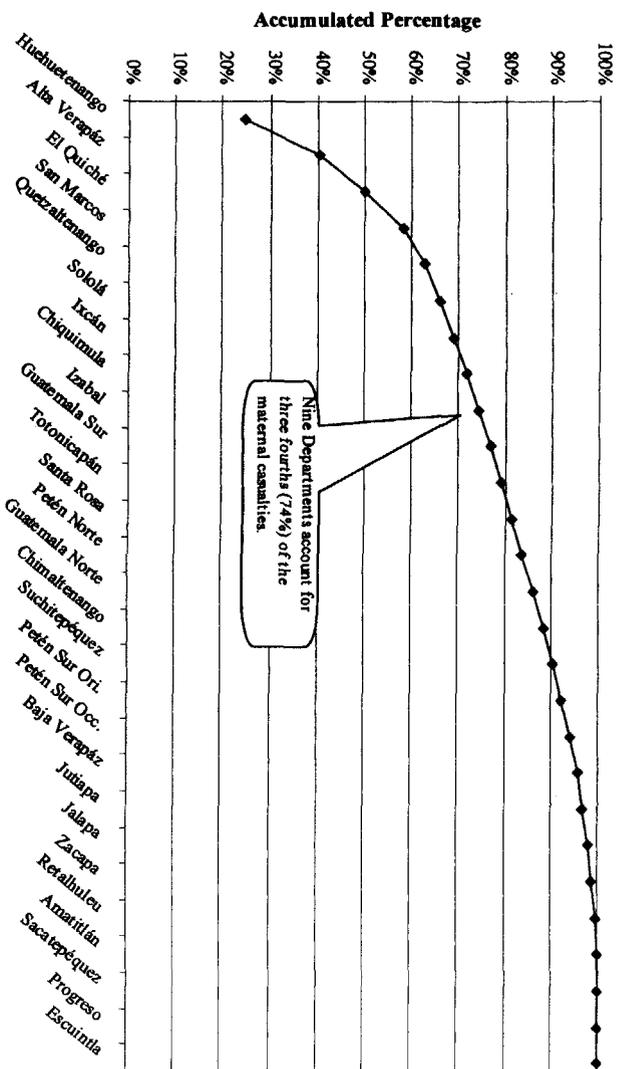
programs which reduce the incidence of diseases (Abo and Reinikka, 1998). Although preventive health spending is budgeted to be close to 50 percent in 1999, the success of the Integrated Attention to the Health System (IAHS) is far more relevant (Box III.2.).

- **Maternal mortality rate.** Data on maternal mortality is unreliable and contradictory (the next national health survey is scheduled for 1999-00). INE reports 97 deaths per 100,000 living-births for 1995, whereas the National Maternal-Child Health Survey estimated an average of 190 deaths for 1990-95, and the National Maternal-Child Health program estimated it at 163 deaths during 1991-97. Under-reporting is clearly a reason for such a wide dispersion in estimates. Maternal mortality is also highly concentrated: 9 departments account for 74 percent of reported maternal deaths (Figure III.2).
- **Poliomyelitis and measles cases.** No polio and only a few isolated measles cases have been reported in Guatemala since 1995, but international certification is still pending. Given data under-reporting, it will depend on an indirect indicator: immunization coverage. Polio and measles coverage were 88 percent and 79 percent respectively in 1998; whereas international certification requires a minimum coverage of 85 and 95 percent (Barillas and Rosales, 1999).

**Figure III.1:
Infant Mortality by Department, 1996**



**Figure III.2:
Maternal Mortality by Department, 1996**



- **Army reduction and disbanding of the military police.** The Government exceeded the target for reducing the armed forces by 33 percent. The number of troops on active duty fell from 46,900 in 1996 to 31,270 in early 1998. In addition, demobilization of the military police was carried out in two phases: 699 members on March 1997 and 1,722 members on December 1997. Progress in this area allowed a decrease in military spending (0.4 percent of GDP).

3.8 **Recommendations.** Although social indicators have improved gradually, there is still a long way to go in meeting specific peace targets by the specified dates. Although targets will need to be rescheduled, there is no escaping the fact that without a considerable increase in allocations to the social sectors, even the rescheduled targets will be difficult to meet. In addition, Government efforts should focus on:

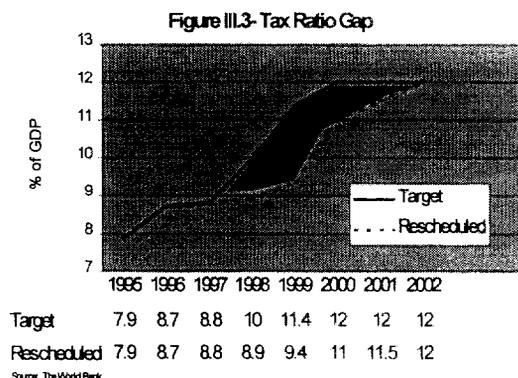
- *Expanding PRONADE and the IAHS is a necessary, but not sufficient condition to reach coverage targets. Improving the quality, ethnic and gender focus of education, e.g., reducing dropout and repetition rates, or increasing enrollment rates among indigenous and girls, should be given as much priority as raising the volume of education resources. This also implies increasing the number of rural schools in indigenous areas faster than in urban areas (Chesterfield and Rubio, 1998), as well as a stronger effort by MOE in areas that affect quality, e.g., teaching materials, textbooks, school supervision.*
- *CONALFA should change its approach to post-adult literacy, placing greater emphasis on increasing its present promotion rate, and with an increased focus on indigenous women. Lessons from Indonesia's best practice could be helpful.*
- *Given the high concentration of low education coverage/illiteracy and infant/maternal mortality in a few departments, applying a well targeted approach is essential, both by using the GIS, as well as baseline surveys under an LSMS exercise (para. 3.12). Ex-ante targeting by PRONADE and IAHS using these instruments can greatly improve their effectiveness.*

C. Rescheduling Peace Targets: Some Considerations

3.9 Although Guatemala has made important progress toward the fulfillment of peace targets, there are some important gaps that will require a reassessment of indicators by the *Comisión de Acompañamiento*. These include:

- **Tax ratio.** Given recent performance, even reaching the 12 tax ratio target by 2002 looks difficult to attain. In net terms, the tax ratio is projected to increase to 9.4 percent by 1999, or 2.6 percent of GDP below the target now rescheduled for 2002 (Figure III.3).

Moreover, a passive scenario suggests that this gap would increase to about 3 percent by 2000 if no additional measures are taken (Table I.5). While raising an additional 2.6 percent of GDP in tax revenues over a three year period does not appear as an unrealistic target, Guatemala's fiscal history over the past couple of decades strongly suggests that unless most of this revenue effort is undertaken early on in the term of the incoming Administration, it is unlikely to occur. In other words, given Guatemala's political economy realities, a gradual approach to expanding the tax base is unlikely to succeed. Measures that would need to be considered include: (i) an unavoidable VAT rate increase toward Central American levels



(13 percent), which would yield about 1 percentage point in additional revenues²; (ii) elimination of most tax exemptions yielding about 0.5 percent of GDP (Schenone, 1999); (iii) a strong revenue collection effort by SAT, which according to Bank estimates would add no more than 0.4-0.5 percentage points of GDP in cumulative terms; and (iv) other tax rate increases jointly agreed for an additional 0.5-0.6 percent of GDP.

➤ **Literacy rate.** A one-year rescheduling is needed under the present promotion rate (Figure III.4). Meeting the 2000 target would imply that CONALFA: (i) succeeds in registering 189,000 and 195,000 illiterates in 1999 and 2000; (ii) raises the approval or promotion rate from 37 to 40 percent; and (iii) executes in 1999 and 2000 the estimated average cost of reducing 1 percent of illiteracy of US\$4.4 million (Statistical Annex, Tables 35).³

➤ **Three years of primary education.** A seven-year rescheduling appears necessary given present enrollment, dropout, repetition and promotion rates (Figure III.5). Meeting this target by 2006 would require that: (i) the combined PRONADE and Afternoon-cycle programs succeed in absorbing a minimum of 75,000 new students per year; (ii) enrollment rates in the traditional system remain constant, and that they increase in the PRONADE and the Afternoon-cycle systems by an average of 61,000 and 14,000 students per year over 2000-03; (iii) the average annual cost of enrolling a student remains constant, Q969 in PRONADE and Q707 in the traditional schools; (iv) promotion rates increase by an average 0.5 percent per year; (v) repetition rates decrease by an average 0.5 percent per year; (vi) dropout rates decrease by about 0.16 percent per year; (vii) 1,531 additional schools are built, half of those actually required by the overall enrollment gap and for a budget of US\$79.4 million; and (viii) adequate financing is available, given that the average cost of expanding primary education coverage by 1 percent is US\$3.9/US\$14.8 million per year, excluding/including infrastructure (Statistical Appendix, Table 36).

➤ **Maternal mortality rate.** This indicator may need to be reconsidered. The lack of regular annual data and complex statistical problems associated with health surveys prevent its adequate monitoring. Regression estimates show it has no regular trend and data collection is unreliable (Barillas and Valladares, 1999). Under-reporting is so serious that even if IAHS

Figure III.4 - Illiteracy

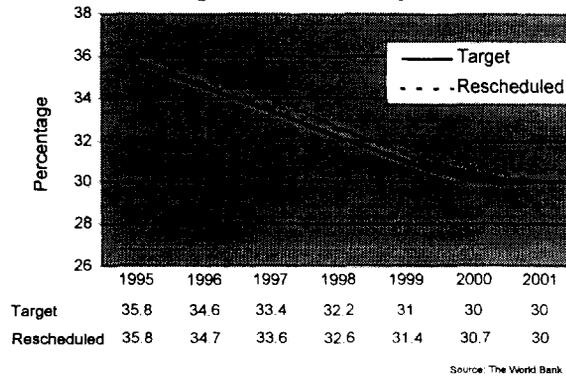
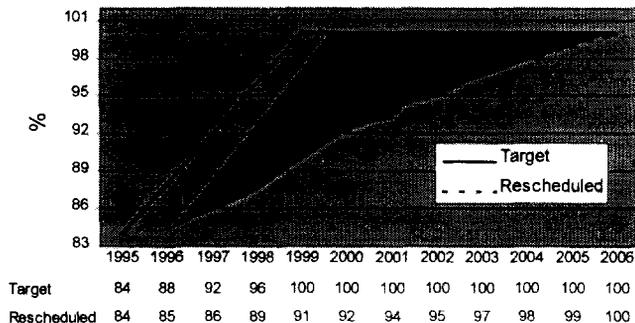


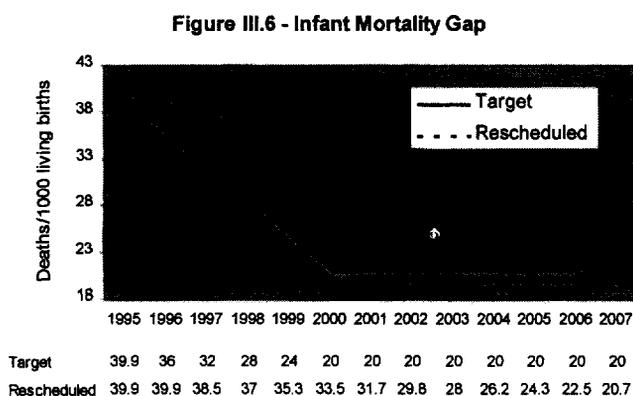
Figure III.5 - Three-Years Schooling Gross Coverage Gap



² The Income and Expenditure Survey being carried out by INE, will allow updating the literacy and gross/net primary education coverage rates, and estimate the distributive impact of raising the VAT.

³ CONALFA had an extraordinary allocation of 3.7 percent of the budget of the Ministry of Education in 1999, but since Constitutional reforms were not approved, such allocation ends this year. However, an extraordinary allocation is included in the budget 2000.

succeeds in expanding its coverage in rural areas, the preventive/curative health ratio is met, and financing support is maintained, this ratio could increase if these efforts lead to better reporting.



➤ **Infant mortality rate.** Under present trends, a seven-year rescheduling would also appear necessary, as the effort required to decrease this rate becomes more difficult as it approaches single figures (Figure III.6). Meeting this target in 2006 implies that IAHS:

- (i) continues expanding its coverage with 100,000 new beneficiaries per year;
- (ii) the peace target ratio for preventive/curative health is met;
- (iii) the number of participating

NGOs, currently 73, can be expanded to support service expansion; and (iv) the health budget increases by a minimum of US\$4.4 million per year, given the estimated average cost of reducing 1 percent of infant mortality of US\$2.2 million (Barillas and Valladares, 1999).⁴

- **Poliomyelitis and measles eradication.** Vaccination coverage should be considered to formally replace certification of cases as the official indicator. Data collection on cases shows improvement with the IAHS, but this remains limited to the areas where it works. On the other hand, PAHO has suggested collecting data on vaccination coverage by municipality (PAHO, 1998), as vaccination campaigns are being carried out with the support of IAHS and the municipalities. Under present trends, reaching an 85 percent coverage of children below 5 for polio will be met this year. Meeting 95 percent minimum coverage of children below 1 for measles, however, would only be achieved by 2002, suggesting the target should be rescheduled. As both campaigns are closely related, achieving 100 percent vaccination coverage would require a minimum annual investment of about \$0.5 million in the next 3 years (Table III.2).

Table III.2. Average Cost of Reducing/Increasing 1 % Point of Target (In Millions US\$)

❖	Illiteracy:	US\$4.4 M.
❖	3 Years Gross Enrollment:	w/o Infrastructure: US\$3.9 M.
		w/ Infrastructure: US\$14.8 M.
❖	Infant Mortality:	US\$2.2
❖	Measles (full cover.):	US\$1.5 M.

D. The Need for Complementary Performance Indicators

3.10 Success in sustaining expenditure reform critically depends on the fiscal space created by the SAT and a set of complementary policy commitments to be agreed by the Fiscal Pact, which involves key actions on the revenue and expenditure side (para. 1.29). Monitoring performance in complying with peace objectives, however, should also track selected complementary non fiscal social outcomes and outputs, an extremely useful tool to assess the impact of increased spending on development and peace commitments. Table III.3 presents a possible set of revamped and complementary education and health indicators at the municipal level, and with a rural, ethnic and gender focus.

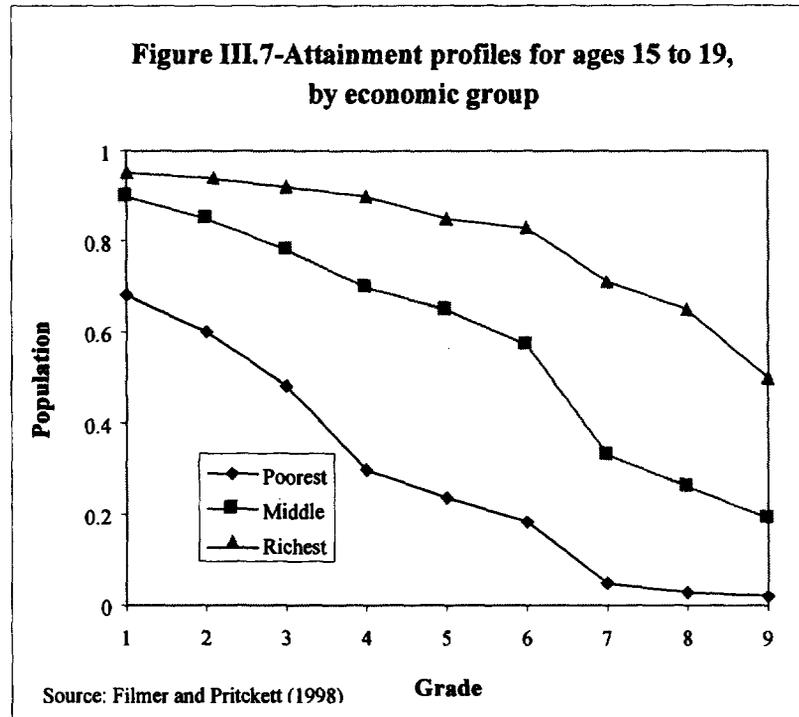
⁴ We also explored a scenario leading to an accelerated fulfillment of this commitment, and estimated its overall financial needs at US\$182 million (0.9 percent of GDP); but fulfillment would be constrained by the lack of implementation capacity from present NGOs and local service delivery agents.

Table III.3 Revamping Performance Indicators For Social Expenditure Reform

Goal	Peace Benchmarks		Complementary Set (by municipality, sex and Urban/rural)
	Fiscal (Total)	Social (Total)	
Education			<u>Outcomes/outputs</u>
Broader and more	Education spending	Literacy rate	CONALFA promotion rates
Efficient and equitable access to higher quality Education with a rural & Gender focus.	Geographic allocation of spending	Gross primary education coverage	Number of PRONADE students Number of new bilingual schools Dropout, repetition and promotion rates Students/teacher ratio in primary Education
Health			<u>Outcomes/outputs</u>
Broader and more	Health spending	Infant mortality rate	Number of health posts under IAHS
Efficient and equitable Access to preventive Health services	Preventive/curative ratio Geographic allocation of spending	Polio & measles cases	Number of water & sanitation projects Number of nutrition projects Immunization coverage Prenatal/transmissible sicknesses in infant mortality

3.11 **Monitoring the Poverty Gap.** Bridging the poverty gap remains, in the end, the most important outcome for social expenditures. We illustrate the poverty gap in education (Figure III.7). An analysis of data on education in Guatemala reveals three relevant findings: (i) low initial enrollment by the poorest (70 percent) is much lower than the richest (96 percent), so raising enrollment rates among the former, especially rural and indigenous girls, is critical to achieve universal education; (ii) high dropout rates among the poorest is the key problem in completing primary education—whereas almost 60 percent of the richest complete primary education, less than 20 percent of the poorest do so; and (iii) dropout rates among the poorest are concentrated in the first four grades rather than in the final grades, as is the case among the richest, so completing the first four years by the poorest is essential to raise the level of their education significantly.

3.12 **Strengthening the quality of data.** Indicators to monitor expenditure reform are very weak (Box III.3). The proposed Living Standard Measurement Survey (LSMS), supported through the so-called MECOVI partnership (World Bank, IDB, UNDP and ECLAC), should provide a stronger foundation to design improved monitoring indicators. The program over 1999-03 consists of: (i) a 2000 LSMS which will permit an analysis of national poverty conditions and assessment of the incidence of expenditure reform; (ii) annual income and employment surveys in 2001 and 2002 to track changes in employment and wages; (iii) a second LSMS in 2003 to compare poverty trends over time and analyze targeting of public spending; and (iv) selective qualitative surveys to better capture the dynamics of poverty and exclusion (e.g., village poverty baseline overviews, social mapping exercises, wealth rankings, case history interviews and measurements of social capital).



Box III.3 Main Statistical and Methodological Data Constraints

- There are a number of major methodological problems in monitoring Guatemala's peace targets:
- ❖ **Tax ratio:** Peace accords did not define the tax ratio explicitly, and this has become an issue; (i) international practice suggests that the tax ratio should be assessed in *net* terms, i.e., deducting VAT credits, whereas the Government measures it in *gross* terms; (ii) before 1997, the Government did not include earmarked taxes (0.2 percent of GDP) and collected fines (0.1 percent of GDP) on its estimation; and (iii) private employer payments for social security (1 percent of GDP—Schonore, 1999) and revenues collected by municipalities (less than 0.1 percent of GDP) are not considered as part of the tax burden.
 - ❖ **Public spending targets:** (i) time-series data on public expenditure are not directly comparable since the IPMAS budget reclassification that took place in 1997, which requires a convertible code that is under preparation; (ii) spending categories of the 1995 baseline year by sector were incomplete and, later on, were modified arbitrarily (e.g., only in 1997 the Constitutionally-mandated transfer to the San Carlos University was counted as part of education expenditure, as well as water and sanitation programs made part of health expenditure); (iii) executed expenditure by the social funds by sector is unavailable, since official data only register the original transfer allocated to them but not its ex-post or actual use; (iv) spending allocations and indicators are gender-blind.
 - ❖ **Preventive/curative health:** Standard practice has been to classify as preventive care any health expenditure not allocated to hospitals, but: (i) not all work under LAHS should be considered as preventive; (ii) conversely, some services provided by hospitals can be considered preventive, e.g., vaccination or external consultations; (iii) public spending on rural water and sanitation programs was only officially recognized as part of preventive health in 1997, but actual spending is underestimated, since INFOM (which is assigned to manage the sector) also invests municipal resources in water and sanitation; and (iv) hospitals under the social security agency (IGSS) are not included as part of the health sector in the base year, so that public spending on curative health is underestimated.
 - ❖ **Rural infrastructure and rural development investment:** Discretion and changing criteria have been the norm, rather than the exception, in defining what projects are peace-related.
 - ❖ **Literacy rates and primary education coverage:** (i) inconsistency on official population growth rate estimates is worrisome, since pre-1994 SEGEPTAN-based rates seemingly underestimated both indicators, when compared to post-1994 INE census-based data; (ii) data collection methodology by MOE is defective because data providers can modify them arbitrarily and there is no quality control/data verification by INE (CIEN, 1998); and (iii) the SEA does not define whether coverage should be measured in *gross* or *net* terms.
 - ❖ **Health indicators:** Data is inadequate and contradictory, based on outdated surveys and dubious collection methods by MOH. The 1995 National Maternal-Child Health Survey (NMCHS) only appeared three years later and, contrary to international standards, INE does not have a full set of annual health indicators (CIEN, 1998b).
 - ❖ **Infant and maternal mortality:** Both rates were derived from the NMCHS for the base-year, but as the next survey is scheduled for 1999-00, it is useless for monitoring purposes. Data on maternal mortality are not directly available, and those produced by the NMCHS are subject to considerable problems. Prepared through an indirect methodology known as the "Sisters," it allows respondents, sisters or brothers of the deceased mother to give information on an event that can be up to 12 years-old, frequently with low understanding about the reasons of the death. Even more important, the estimated rate is a weighted average of mortality conditions over a period, i.e., it does not refer to a particular year. Improved reporting of deaths at the local level, mainly associated to SIAS, also distorts mortality rates, for they tend to increase by the simple "registry-creation" effect. Although PAHO proposed adoption of a direct method, it would have no reference to the base year (PAHO, 1998). For their part, data on infant mortality are provided by INE on an annual basis based on registered deaths. Infant mortality survey data are also more accurate, since the questionnaire's respondent is the mother, who can better explain the causes of death and whether it happened before the child was 1 year old.
 - ❖ **Polio and measles cases:** There is no regular publication on epidemic illnesses, but in 1997 PAHO suggested adopting international standards in terms of vaccination minimum coverage at the municipal level. (PAHO, 1998).

TECHNICAL ANNEXES

- Annex A Guatemala: Projections of the Tax Revenue
- Annex B The Growth-Fiscal Deficit Gap
- Annex C Factors Present Prior to Fiscal Stress
- Annex D Contingent Liability Estimates for Several Countries
- Annex E IFMS Status and Best Practices in Public Financial Management
- Annex F CABEI, IDB and World Bank Loan Approval Procedure Delay
- Annex G Progress Report on the Recommendations Made by the WB/ PIR
1997

Guatemala: Projections for the Tax Revenue

	Projections					
	1998		1999		2000	
	WB	MinFin	WB	MinFin	WB	MinFin
	(In millions of quetzales)					
1998: Measures proposed to the Comisión de Acompañamiento						
1. Extensión of the IEMA			349.3	402.1	774.2	958.4
Gross collection			349.3	402.1	1008.2	1008.2
Less: Credit against the income tax			0.0	0.0	-234.0	-149.8
2. New IUSI			0.0	0.0	200.1	200.1
3. Administrative measures:			406.4	761.8	769.7	1977.4
SAT			406.4	541.8	769.7	1757.4
Verification of import prices (net effect)*			0.0	220.0	0.0	220.0
4. Postponement of the tariff reduction			63.4	125.0	153.9	153.9
Estimated yield of the new measures			819.1	1288.9	1897.9	3071.8
Projected tax ratio without additional measures	8.90	8.90	8.50	8.50	8.10	8.10
1. Extension of the IEMA			0.26	0.30	0.53	0.66
Gross collection			0.26	0.30	0.69	0.76
Less: credit against the income tax			0.00	0.00	-0.16	-0.10
1998: Measures approved by Comisión de Acompañamiento			0.26	0.30	0.53	0.66
Projected tax ratio before including SAT	8.90	8.90	8.76	8.80	8.62	8.76
Administrative measures:						
2. SAT + Verification of import prices*			0.30	0.56	0.50	1.35
3. Tax amnesty			0.30	0.20		
Projected tax ratio with identified measures	8.90	8.90	9.36	9.56	9.13	10.11
Nominal GDP (million Q)	121,643		133,736.6		146,489.1	

*If verification fees are not paid by users; if they are, it could be higher.

Source: Ministry of Finance, World Bank and IMF staff estimates.

The Growth-Fiscal Deficit Gap

Assessing the fiscal deficit and growth trends toward sustainable levels is a complex issue that depends on alternative models with many variables. The growth-fiscal deficit gap model is a useful guide for policy makers and analysts as a standard toolkit of country economic analysis and one of the main performance indicators for country reports by the IMF and the World Bank.¹

In the growth-fiscal deficit gap model, two easily available economic indicators are examined: The ratio between the fiscal deficit and GDP growth, and its relationship with total public debt-to-GDP. To put it in simple terms, the fiscal deficit is covered, every year, by an increase in the public debt, either domestic or external. If the fiscal deficit rises, it may be unsustainable unless GDP grows sufficiently to repay the debt principal and interest coming due and/or the debt-to-GDP ratio also increases to finance it. Such a simplified relationship between fiscal deficits, GDP growth and the debt-to-GDP ratio is expressed by a simple equation that represents the change over time of the debt-to-GDP ratio (D/GDP). In mathematical notation, this change over time, written as a “•” over the variables, is decomposed as follows:

$$\dot{D}/GDP = (\dot{D}/GDP) + (D/GDP) \dot{GDP}/GDP$$

where \dot{D} is the change in the amount of debt, equal to the fiscal deficit; and \dot{D}/GDP is the measure of the fiscal deficit as a share of GDP. In economic terms, the equation tells us how the fiscal deficit is financed. The fiscal deficit (as a share of GDP) is equal to the change in the debt to GDP ratio plus the growth rate multiplied by the debt to GDP ratio at the beginning of the period. Thus, assuming the country decides to keep its debt-to GDP ratio constant, the equation expresses the common thought that unsustainable fiscal deficits can not be corrected unless GDP growth increases or fiscal deficit decreases or, preferably, both.

The equation also assesses which way a country is headed according to its fiscal deficit and growth rates achieved in the most recent years. To do this, we first estimate the debt-to-GDP ratio. This ratio defines the “ceiling” value for a sustainable fiscal deficit/GDP growth. In terms of the equation depicted above, assuming the first term of the right-hand side is equal to 0 yields

$\dot{D}/GDP = (D/GDP) \dot{GDP}/GDP$ or, rearranging, $\dot{D}/GDP = (D/GDP)/\dot{GDP}/GDP$, i.e. the fiscal deficit-to-GDP growth rate should match its ceiling debt-to-GDP ratio. Hence, if the projected fiscal deficit is 3 percent of GDP and the growth rate is 4 percent, i.e. a fiscal deficit-growth rate ratio of 75 percent; and the “ceiling” debt-to-GDP ratio is 20 percent, budget sustainability would require to bring the deficit/growth ratio down to 20 percent, i.e. a fiscal adjustment of 2.2 percent. This would yield a fiscal deficit/growth rate of 20 percent $[(0.8/4) \times 100]$.

¹ IMF, Overview of Developments in Countries with Stand-by and Extended Arrangements Approved During 1988-91, Policy Development and Review Department, 1994; The World Bank, Adjustment Lending in Sub-Saharan Africa: An Update, Report No.16594, 1997, and Fiscal Management in Adjustment Lending, Report No.16040, 1996.

Factors Present Prior To Fiscal Stress

Country	Period	Financial Sector Liberalization	Excessive Credit Growth	Bank External Borrowing	Asset-Price Inflation	Macro-economics Imbalances	Exchange Rate Mis-alignments	Macro-economic Stabilization	Terms of Trade Shock	Capital Account Shock	Economic Contraction	Overhang from NFPEs
Asia/Pacific												
Australia	1989-92	x	x			x						
India	1994-present	x						x				x
Indonesia	1992-present	x	x					x				
Japón	1992-present	x	x		x			x				
Malaysia	1985-88	x	x		x	x			x			
Philippines	1981-87	x	x	x	x				x	x		
Thailand	1983-87		x		x							
	1997	x	x	x	x	x	x					
Latin America												
Argentina	1980-82	x	x		x	x	x					
	1995									x		
Brazil	1994-present		x			x		x		x		x
Chile	1981-86	x	x	x	x		x		x			
Colombia	1982-87	x	x				x					
Mexico	1994-present	x	x				x			x		
Uruguay	1981-84	x	x									
Venezuela	1994-present	x			x	x	x					
Guatemala*/	1995-98	x	x			x	x		x		x	
Western Europe/US												
Finland	1991-94	x	x	x	x		x		x		x	
Norway	1987-93	x	x	x	x		x		x			
Sweden	1990-93	x	x	x	x		x					
United States	1980-92	x	x		x		x					
Middle East												
Egypt	1991-95							x				x
Kuwait	1982				x							
	1990-91											
Israel	1983-84	x			x	x						
Turkey	1982-85							x				
	1994					x	x			x		
Central Europe/Transition Economies												
Czech Repub	1991-present	x							x		x	x
Hungary	1987-present	x				x		x	x		x	x
Kazakhstan	1991-95	x						x	x		x	x
Latvia	1995-present	x						x	x		x	x
Lithuania	1995-present	x				x			x		x	x
Poland	1991-present	x						x	x			x
Russia	1992-present	x				x					x	x

Sources: Standard & Poor's Credit Week 1997

*/Estimate for World Bank

Contingent Liability Estimates*						
	Ratings FC/LC	Per Capita Income (US\$) 1997 est.	Dom. Credit to			General Gov't Debt (%of GDP) 1997 est.
			Private Sec. And NFPEs(% of GDP) 1997 est.	Lower Bound (%of GDP)	Upper Bound (%of GDP)	
5%-15% ¹⁷						
Australia	AA/AAA	21355	83	4	12	36
Canada	AA+/AAA	20122	90	4	13	97
France	AAA/AAA	23457	79	4	12	64
Germany	AAA/AAA	26366	113	6	17	62
Sweden	AA+/AAA	25174	39	2	6	76
United Kingdom	AAA/AAA	21632	127	6	19	53
United States	AAA/AAA	29827	119	6	18	60
10%-20%						
Chile	A-/AA	5578	55	5	11	16
Finland	AA/AAA	23252	56	6	11	61
Hong Kong	A+/AA-	26472	177	18	35	7
Italy	AA/AAA	19913	48	5	10	123
Japan**	AAA/AAA	35622	193	19	39	90 ²¹
Norway	AAA/AAA	34878	76	8	15	33
Singapore	AAA/AAA	31419	112	11	22	72
South Africa	BB+/BBB+	2652	72	7	14	59
Guatemala 4/	BB/NR	1640	26	2	3	21
Taiwan	AA+/NR	13609	150	15	30	16 ²⁷
15%-30%						
Argentina	BB/BBB-	8751	20	3	6	39
Colombia	BBB-/A+	2399	45	7	13	21
Hungary**	BBB-/A-	4513	22	3	7	69
Israel***	A-/AA-	16434	71	11	21	112
Korea	A-/A+	11103	147	22	44	17
Malaysia	A+/AA+	4793	163	24	49	32
Panama	BB+/BB+	3331	81	12	24	82
Philippines	BB+/A-	1139	61	9	18	53
Poland**	BBB-/A-	3365	24	4	7	45
Slovenia	A/AA	9080	34	5	10	21
Uruguay	BBB-/BBB+	6394	32	5	10	38
25%-40%						
Brazil	BB-/BB+	4742	31	8	12	48
Czech Republic	A/NR	4625	90	23	36	15
Egypt	BBB-/A-	1183	65	16	26	94
Greece**	BBB-/A-	12364	38	9	15	110
Indonesia	BBB-/A-	1090	63	16	25	33
Lebanon	BB-/BB+	4016	59	15	24	78
Saudi Arabia**	NR/NR	7450	63	16	25	0
Slovakia	BBB-/A	3517	41	10	16	27
Thailand	BBB/A	2673	149	37	60	23
35%-60%						
China	BBB+/NR	772	100	35	60	11
India	BB+/BBB+	420	23	8	14	66
Latvia	BBB/A-	2244	11	4	7	19
Mexico	BB/BBB+	4361	16	6	9	15
Pakistan	B+/NR	487	20	7	12	93
Romania	BB-/BBB-	1443	19	7	12	25
Russia	BB-/BBB-	3183	12	4	7	54
Turkey	B/NR	2887	24	8	14	57
Venezuela	B+/NR	3630	13	4	8	34

* Year-end 1997 estimate, unless otherwise indicated

THE IFMS AND BEST PRACTICES IN PUBLIC FINANCIAL MANAGEMENT

THE FRAMEWORK OF FORMAL AND INFORMAL RULES. The formal rules are embodied in the legal framework – the constitution, the organic budget law, the IFMS incoming law, norms and legislation on finance regulations – and in the procedures of the legislature and the executive. The informal rules tend to be reflected in what actually happens. Guatemala may have an exemplary set of formal rules, but they are meaningless if they cannot be enforced because of the more powerful informal rules. The key point is that any assessment of the institutional arrangements requires that both the formal and informal rules – and the nature of their enforcement – be understood. Assessing the effectiveness of the legal framework and in understanding the informal rules follow.

LAW AND RULES	ADEQUATE	INADEQUATE	Improvements Needed
❖ There are checks and balances in the system (e.g. executive and legislative, committing and spending, external and internal audit).		X	Approval of Comptroller General's Office Law
❖ There is a requirement that tax revenue be paid into consolidated revenue fund and funds can only be spent by appropriation of the legislature.	X		
❖ Formal rules require minimum ex ante controls on expenditure.	X		
❖ Rules do not unnecessarily circumscribe managerial capacity at service delivery.	X		
❖ Laws require a comprehensive budget.	X		
❖ Extra-budgetary funds are transparent and valid.	X		
❖ The budget is executed as legislated.	X		
❖ Rules govern whether the legislated budget can be adjusted during execution.	X		
❖ There are incentives for working with the best possible estimates of resources.	X		
❖ Next year's budget is not based primarily on what was spent in, or appropriated for, this year.	X		
❖ The central budget agency relentlessly pursue savings for return to the treasury.	X		
❖ Rules require timely publication of information for transparency and to enhance accountability.	X		
❖ There are sanctions for overspending and poor program and project performance.	X		

BUDGET COVERAGE AND STRUCTURE. The basis for sound government finances is a single central fund into which revenues are received and out of which public activities for citizens are paid. For good microeconomic management, controls need to be exercised over all revenues and expenditures. Activities placed outside the official "budget" are not subject to the discipline of the resource allocation process. A comprehensive budget process promotes allocative efficiency because it forces trade-offs between the different ways a government uses financial resources. Budget coverage that results in efficient use of resources consists of total revenues and all budgeted expenditures, including funds that usually are not reported such as extrabudgetary. Budget structure that results in efficient use of resources consists of capital and recurrent (or operating) spending, and country-financed and aid-financed spending.

BUDGET COVERAGE & STRUCTURE	ADEQUATE	INADEQUATE	Improvements Needed
❖ The budget covers total revenue and expenditure.	X		
❖ No funds or financial mechanisms are excluded.	X		
❖ Donor finance is channeled into the budget.		X	Aid is under-registered
❖ Earmarking is limited.	X		
❖ Laws on earmarking can be modified or limited.	X		
❖ Special funds are separately or supplementary budgets are limited.	X		
❖ State enterprise investments financed from budget are included in the capital budget.	X		
❖ Measures taken to improve coordination of autonomous agency investment without full incorporation into the government budget.	X		
❖ An attempt is made to calculate and forecast recurrent cost implications of investments, and results are reflected in the annual budgets.		X	Improved costing accuracy & more frequent exercise

BUDGET POLICY AND PLANNING. The system aims to provide a medium-term framework for public expenditure by identifying the resources that are to be available and the strategic sector priorities that will drive resource use. Political ratification to the policies/programs should be the basis of budget proposals.

BUDGET POLICY AND PLANNING	ADEQUATE	INADEQUATE	Improvements Needed
❖ Policy/planning provides a realistic framework for public expenditure rather than a "wish list."	X		
❖ It links macroeconomic and revenue projections with public expenditure proposals.	X		
❖ The planning framework is made public and widely disseminated.		X	There is no planning system
❖ The planning framework is updated regularly (annual/mid-term economic plan review).		X	Ad-hoc exercise for CG meetings
❖ Government's policies are accessible and clearly articulated in each sector.		X	Dissemination by Government
❖ The policy process drives any PIP.		X	A PIP framework
❖ The policy/planning process is tightly linked to the budget. Affordability influences decisions.		X	An operative Public Investment Plan
❖ Conflicts between resource needs and availability are resolved in appropriate decision making arena.	X		
❖ Needs, as perceived by Agencies, are prioritized and made consistent with available resources.	X		
❖ A decision-making forum at the center demands	X		

information to facilitate decisions, increasing transparency and accountability for results. Similar arrangements at the sector level promote effective implementation at the operational level.			
❖ Decision makers at all levels held accountable for authority (flexibility) provided to them.		X	Accountability still is a vague concept

BUDGET PREPARATION. The process of annual budget preparation follow several stages: assessment of overall resource availability and the adoption of aggregate expenditure and revenue targets; disaggregation of targets into ministry ceilings; preparation and distribution of budget guidelines, including ministry ceilings, and their distribution to spending ministries (the "budget call circular"); preparation of submissions by spending ministries and departments; review of submissions by the Finance Ministry; and submission to and approval by Congress of draft estimates. The determination of ceilings are crucial stages for the budget process to be credible. Aggregate targets must be agreed upon at the political level. Often, most budgets are incremental, taking last year's allocation as base, adding a small percentage for inflation and, perhaps, a little real growth. Step-budgeting may reflect a mismatch between policies and resources.

BUDGET PREPARATION	ADEQUATE	INADEQUATE	Improvements Needed
❖ The budget preparation cycle has logical sequence and timing.	X		
❖ The macroeconomic and revenue forecasts, and budget ceilings are linked.		X	Higher accuracy of the assumptions
❖ The budget circular is timely and provides a clear set of rules for the budget process.	X		
❖ Budget ceilings are determined for sector ministries.	X		
❖ Ceilings cover both recurrent and capital components of the budget.	X		
❖ They are communicated prior to the preparation of the sector submissions.	X		
❖ Mechanisms require a medium-term perspective to decision making.		X	Multiyear Budget
❖ Estimates for the capital budget reflect total costs of projects, not only those of a single year.	X		
❖ Earmarking does not play a significant role in the allocations of funds and is not distortionary.	X		
❖ No arbitrary cuts are made.	X		
❖ Budgeted costs reflect realistic O&M.		X	Better budget programming
❖ Sector ministries are consulted before budget finalization.	X		
❖ Sufficient time is devoted to debating funding for existing policy.	X		
❖ There is a well-defined process for considering new policy proposals.		X	Better budget programming
❖ All relevant issues, information and stakeholder perspectives are available to decision makers.	X		

AID MANAGEMENT. Increasing external aid flows impact on several phases of the budget process. Preserving consistency between donor and government priorities (some projects are funded because of the availability of funds rather than consistency with government priorities), and keeping track of how much donors have disbursed, what the funds have been spent on, and whether government obtained value for the money is essential.

AID MANAGEMENT	ADEQUATE	INADEQUATE	Improvements Needed
❖ All aid is incorporated in the budget.		X	Single Register at MIFIN
❖ Aid projects are derived from the Program priorities, not from the priorities of donors.	X		
❖ Adequate aid coordination with roles clearly defined, and Ministry responsibilities do not overlap.	X		
❖ Aid pledges are well coordinated. Government prepares sufficiently for meetings with aid agencies.	X		Closer coordination with the entities.
❖ There are adequate procedures for matching projects to aid agencies.		X	
❖ The government takes the lead role in discussions with aid agencies.	X		
❖ In the case of direct disbursement, government is involved in sanctioning expenditure.		X	Regular collection of information. Ad-hoc exercise
❖ Government receives expenditure statements from aid agencies and records them.		X	
❖ It provides aid agencies with progress reports and statements on expenditure incurred.		X	
❖ Aid management is facilitated by a coordinating medium – this may be one useful role for PIP.		X	Work a regular PIP

BUDGET EXECUTION. Constraints in the “plumbing” of the budget are a major cause of poor program and project implementation. Even when there is provision, MIFIN may still make tactical budget cuts by authorizing expenditure levels well below those provided for in the estimates. Cuts tend to fall on capital spending. Outlays on salaries, however, are rarely touched. Even where expenditure has been authorized, there can still be problems caused by delays in authorizations, by sufficient funds in Ministry bank accounts or by the requirements of government tendering procedures. These problems are often compounded by the multiplicity of donor disbursement procedures. Another issue is funds fungibility. Expenditures reflect budget categories but may be applied to purposes different from those originally intended.

BUDGET EXECUTION	ADEQUATE	INADEQUATE	Improvements Needed
❖ Budget is approved by Congress and distributed to ministries in time for the start of the year.	X		Better project management needed
❖ Annual cash requirements for each agency are forecast, Government cash flow is prompt.	X		
❖ Line ministries manage recurrent budgets/development projects well.		X	
❖ There is a process of rationing out releases over the year and for accommodating major expenditures occurring one time in the year.	X		
❖ MIFIN has the authority to change allocations to line agencies during year.	X		
❖ It is easy for agencies to obtain supplements to their original budget.	X		
❖ Decentralized payments do not undermine expenditure control.	X		
❖ Information on actual expenditure is available on time for monitoring tasks.	X		
❖ Arrears are not significant as a proportion of total expenditure.	X		
❖ Agencies have a control system that ensures that expenditure does not exceed budget.	X		

❖ The payments system is centralized and payments are made on time.		X	Increased focus on local participation
❖ In a decentralized system, payments do not exceed appropriation limit. There are sanctions for overspending.	X		

ACCOUNTING SUBSYSTEM. The accounting subsystem is at the heart of an integrated financial management system because other subsystems depend upon it for useful, timely and reliable data necessary for the full range of decisions made as part of the resource allocation, budgeting, and financial management system and process. A well-performing accounting system enables inputs to be tracked and costs to be attributed to specific government interventions. A sound system also provides information to managers for use in making informed decisions; permits faith in the ability to substantiate financial transactions where necessary based upon well-organized supporting documentation; makes it possible to report results in financial terms and, where performance data is maintained, to report costs; permits controlling current year budgetary execution as disbursements are made and preparing future year budgets based upon actual expenditures; provides periodic financial reporting and auditability, lending credibility to governmental operations and strengthening accountability.

ACCOUNTING	ADEQUATE	INADEQUATE	Improvements Needed
❖ All accounting and budget categories or coding schemes is fully integrated into a single common classification constant over several years.	X		Transition between budget categories disrupted the comparability of fiscal accounts (still needs a dual budget statement)
❖ The chart of accounts is comprehensive. It integrates accounts containing assets, liabilities, government equity, revenues and expenditures.	X		
❖ Financial statements/public accounts follow a recognized set of accounting standards.	X		
❖ The accounting system (cash, modified cash, modified accrual, full accrual) works well.	X		
❖ There are manuals setting out the procedures and regulations for the accounting system.	X		
❖ Budget execution data are recorded normally, not segregated into a separate data subsystem.	X		
❖ Expenditure statements are produced regularly and are available to stakeholders.	X		
❖ An annual and accurate expenditure statement appears shortly after the end of the year.		X	Prompt publication is needed
❖ The accounts include aid expenditures undertaken directly by aid agencies.		X	Better recording systems

AUDITING SYSTEM. The focus of auditing is to determine whether public funds have been spent for the purposes of which they were designated. The scope of auditing should be sufficiently broad. The objectives of an audit should include compliance with budget appropriations, and whether public funds purchased value for money. Three recommendations to improve internal and external auditing are: To continue building staff capacity; establish and abide by uniform and transparent standards and procedural norms for basic financial accounting and management; and standardize and centralize control of a financial information system for audit purposes.

AUDITING	ADEQUATE	INADEQUATE	Improvements Needed
❖ Government accounts are audited on time.	X		More staff for CG Modernize the CG's Office
❖ Audit queries are responded to swiftly.		X	
❖ The Comptroller General (CG) is independent. When it adverse reports, prompt action is taken.	X		

❖ Government decides on the audit priorities.	X		
❖ A Comptroller's report was issued last year.	X		
❖ Reports of the CG are made public.	X		
❖ The legislature has established mechanisms for pursuing reports of the CG.	X		
❖ The CG follows certain standards in carrying out audits. A manual sets out the standards.		X	To improve audit systems
❖ The CG undergoes external quality control reviews. System improvement are provided.		X	Apply external quality control.
❖ The CG's office has the capacity to do systems audit.		X	Training on systems audits
❖ Financial auditing is sufficiently effective to move to performance auditing.	X		Comptroller's new law
❖ Auditors review specifications of performance objectives and reports on results using standards.		X	To improve audit standards
❖ The CG employs private sector auditors to carry out audits on his behalf. Rules prevent hiring a firm of auditors as consultants to the same client.		X	Comptroller's new law
❖ There are requirements for internal audit within line ministries. Internal audit is directly responsible to the head of the agency.		X	To improve audit systems

INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (FMIS). The IFMS computerized information system is essential to support expenditure management activities. In the past, the information systems had little capacity for data sharing. The integrated system is now strengthening the Government's core financial systems. Summary data from computerized modules for similar transactions are transferable and usable within the system. People speak the same technical and legal language across the organization and program structures to make the integrated system work.

INTEGRATED FMIS	ADEQUATE	INADEQUATE	Improvements Needed
❖ The accounting system is sufficiently reliable to move to an integrated FMIS.	X		
❖ All national level financial regulations, rules and guidelines have a common language.	X		
❖ Budgeting and accounting categories at the national level have a common classification.	X		
❖ Operating unit produced financial data, centrally and regionally produced data in a single financial data base is accessed by all systems.	X		
❖ There is a uniform flow of information-based decisions throughout the management cycle.	X		
❖ Clear inter-linkage of data flow and reporting throughout the agencies and the government.	X		
❖ The basic subsystems of the FMIS within each agency (budgeting, accounting, cash and debt management systems) are fully compatible, consistent and coordinated under a single head.	X		
❖ The basic subsystems of the FMIS at the national level have a unified head and control.	X		
❖ Financial management staff selection is based on unified professional criteria.	X		
❖ Non-financial data are processed for purposes of performance and cost-measurement criteria.		X	Needs performance monitoring ratios

EVALUATION. A rule of thumb for any IMFS is that no major new program should be launched without either an extensive evaluation of similar earlier programs or a pilot program. Close monitoring followed by an interim evaluation could provide valuable information for decision making on expansion, modification or termination of a program. Evaluation can be ex ante, during implementation and ex post. Well-focused and property time evaluation can: (a) provide the information needed to bring about mid-course corrections in programs and projects; (b) allow for the analysis and resolution of systemic or policy issues; (c) improve the design of future operations; and (d) contribute to strategic policy and program decisions. Regular evaluation is most effective and should include staff involved in implementing the program. Regular independent evaluations should also be carried out. Evaluation skills within MIFIN are needed so that budget proposals can be rigorously scrutinized based on cost-effective or cost-benefit analysis.

EVALUATION	ADEQUATE	INADEQUATE	Improvements Needed
❖ There is a requirement for carrying out evaluations by central and line agencies or by independent external agencies for a certain percentage of programs/projects.		X	Only some donors do, but should be generalized
❖ The results are used in budget decision making.		X	Donors' report be published
❖ The results of ex-post evaluations are published.		X	Develop client's survey
❖ Client surveys are routinely and frequently carried out as part of these evaluations for ministries and services. Results are published.		X	Link budget to outcomes
❖ There are incentives in the budgetary system for line agencies to undertake evaluation.		X	Develop an evaluation system
❖ There is a requirement that new policy proposals are accompanied by evaluation strategy.		X	

PERFORMANCE MEASUREMENT (PM). Increasing attention is being given to performance measurement in the IFMS, peace accords and donor projects. Performance indicators refer to what specifically is to be measured for each aspect of performance, that is, the specific numerical measurement that is to be made such as the "number of customer complaints" or "percentage of customers that report being satisfied with the service they received." In an education program, the outputs may be measured by the number of dropouts or the percentage of students advancing to a certain grade; the outcomes by the percentage of students completing elementary school or advancing to higher education. Project managers collect both output and outcome information. Ideal characteristics for performance measures and indicators are: They are consistent over time and between units, and comparisons are made only with similar programs; they should be simple, well defined and easily understood, emphasizing aspects important to decision making; emphasis should be given to a limited number of key measures or indicators that reflect the program's purpose or objective or signal whether the program is worth continuing; managers' performance are measured for areas under their control. Measurements should also include the impact and quality of services. This means: timeliness, responsiveness to beneficiaries' needs and manner of delivery. Quality may also be measured via surveys.

PERFORMANCE MEASUREMENT	ADEQUATE	INADEQUATE	Improvements Needed
❖ Government fosters an environment that supports and demands performance.	X		Build a PM system in the FMIS
❖ Managers have clear short – and long-term performance targets.		X	Design and define them

❖ There are feedback mechanisms to supply data on performance and part of them is published.		X	Adjust the IFMS to it
❖ The accounting system ties costs to performance, measuring workload, outputs and outcomes.		X	Costing is part of the PM system
❖ There is a systematic collection, analysis and reporting of performance information to verify compliance with strategic goals.		X	Adjust the OFMS to it
❖ Agencies have benchmarks based on best practices with similar challenges, whose performance they try to match or surpass.		X	Peace benchmarks are a starting point
❖ Agencies or managers contract to produce outputs or results with agreed resources.		X	Issue a new civil service law&norms

Annex II.B

CABEI Projects to (5/24/99)

No.	Project Number	Board Approval	Effectiveness Date	Project Name	Stages			Totals		Totals
					1	2	3	4	5		6
1	1231	8/1/97	5/27/98	"CA-11 Road Construction - Section Vado Hondo-el Florido"	60	19	70	149	148	297
2	1290	3/27/98	Pending*	"Integral Development Program in Potential Irrigation and Drainage Areas"	133	16	98	247	-	247
3	1307	5/27/98	Pending*	"Rural Development in Chortí Communities"	70	15	98	183	-	183
4	1308	5/27/98	Pending*	"Aid to Productive Sector of the Republic of Guatemala (FIS)"	83	17	97	197	-	197
5	1427	11/18/98	Pending*	"Productive Infrastructure for Sustainable Development in Frontier Zone , Gua-Mex"	174	-	-	174	-	174
AVERAGE					104	16.8	90.8	190	148	219.6

- 1 There is a period of 104 days (average) between the approval of a project by CABEI's Board and the time it is sent to the Monetary Board
- 2 There is a period of 16.8 days (average) among the reception of the document at the Monetary Board, the resolution issued by this institution and the time it is sent to the President's General Secretariat.
- 3 There is approximately a period of 90.8 days (average) since the document is received by the President's General Secretariat, approval by Congress, and the time it takes to be published.
- 4 In general, there is an average of 190 days between the Board's approval and the publication in the Official Gazette.
- 5 In average, there is a period of 148 days between the publication and the effectiveness date of a project.
- 6 In total, there is an average of 219.6 days between Board's approval and the effectiveness date of a project.

* Projects pending effectiveness date.

IDB Project to (5/24/99)

No.	Project Number	Board Approval	Effectiveness Date	Project Name	Stages			Totals		Totals
					1	2	3	4	5		6
1	1014/OC-GU	6/25/97	12/9/97	"Technical Assistance Program to Support Sectorial Reform in Infrast. & Investment"	44	3	56	103	53	156
2	886/SF-GU	8/15/97*	7/28/98	"Global Credit Program for Micro-Enterprises and Small Enterprises"	70	6	124	200	146	346
3	1048/OC-GU	10/15/97**	8/3/98	"Housing Program"	29	8	98	135	152	287
4	1054/OC-GU	11/12/97***	11/26/98	"Support to Education Reform Project"	100	11	95	206	167	373
5	1106/OC-GU	5/10/98	1/15/99	"Pre-Investment for Peace Program"	22	38	111	171	70	241
6	1120/OC-GU	8/12/98	Pending	"Judicial Reform Support Program "+	20	9	91	120	-	120
7	1147/OC-GU	11/18/98	3/8/99	"Natural Disaster Emergency Program"	6	2	46	54	56	110
8	1153/OC-GU	12/2/98	Pending	"Support to Agro Productive Reconversion"+	49	9	-	58	-	58
9	1162/OC-GU	12/16/98	Pending	"East Development Program "+	82	4	-	86	-	86
AVERAGE					46.9	10	88.7	125.9	107.3	197.4

- 1 There is a period of 46.9 days (average) between the approval of a project by the IDB Board and the moment it is sent to the Monetary Fund
- 2 There is a period of 10 days (average) among the reception of the document by the Monetary Fund, the resolution issued by this institution and the time it is sent to the President's General Secretariat.
- 3 There is approximately a period of 88.7 days (average) among the date the document is received by the President's General Secretariat, the approval by Congress and the time it takes to be published.
- 4 In total, there is an average of 125.9 days between the approval by the Board and the publication in the Official Gazette.
- 5 In average, there is a period of 107.3 days between the publication and the effectiveness date of a project.
- 6 In total, there is an average of 197.4 days between Board's approval and the effectiveness date of a project.

*Ref. Legal Department, ** this project was modified on 9/9/98

*** This project was cancelled during its implementation and the stages were initiated from the beginning, + Effectiveness date pending

World Bank Projects to (5/24/99)

No.	Project Number	Board Approval	Effectiveness Date	Project Name	Stages			Totals		Totals
					1	2	3	4	5		6
1	GT-PE-48756	4/22/97	4/24/98	"Technical Assistance for Private Participation in Infrastructure"	76	21	140	237	115	352
2	GT-PE-7223	5/20/97	3/19/98	"Basic Education Reform"	58	22	57	135	153	288
3	GT-PE-48654	8/28/97	12/11/98	"Technical Assistance for Tax Administration"	46	20	306	372	93	465
4	GT-PE-35737	12/11/97	12/11/98	"Rural and Main Roads"	85	10	174	269	93	362
5	GT-PE-48657	12/23/97	11/19/98	"Technical Assistance Integrated System of Financial Admin. II"	52	15	188	255	71	326
6	GT-PE-49386	7/28/98	2/15/99	"Local Reconstrucción and Development"	16	18	80	114	80	194
7	GT-PA-47039	10/22/98	4/22/99	"Judicial Reform"	22	2	52	76	101	177
8	GT-PE-40198	11/12/98	1/15/99	"Second Project Social Inversion Fund"	12	1	46	59	35	94
9	GT-PA-49619	12/3/98	Pending	"Land Administration Program**"	77	9	-	86	-	-
10	GT-PA-54462	1/7/99	Pending	"Land Fund**"	49	11	-	60	-	-
AVERAGE					49.1	12.9	130	139.3	92.6	282.3

- 1 There is a period of 49.1 days (average) between the approval of a project by the World Bank Board and the moment it is sent to the Monetary Fund.
- 2 There is a period of 12.9 days (average) among the reception of the document by the Monetary Fund, the resolution issued by this institution and the time it is sent to the President's General Secretariat.
- 3 There is approximately a period of 130.4 days (average) since the document is received by the President's General Secretariat, the Congress approval and the time it take for the project to be published.
- 4 In total, there is an average of 139.3 days between the approval by the Board and the publication in the Official Gazette.
- 5 In average, there is a period of 92.6 days between the publication and the effectiveness date of a project.
- 6 In total, there is an average of 282.3 days between Board's approval and the effectiveness date of a project.

* The projects without information are still pending.

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EDUCATION**

RECOMMENDATION	ACTIONS CARRIED OUT
1. Timely supply of funds by the Ministry of Finance; creation of the UDAF at the Ministry of Education in order to implement the SIAF.	<ul style="list-style-type: none"> ▪ The implementation of the SIAF and the creation of the UDAF at the Ministry of Education (January 1997). New procedure for budget planning which coordinates the advancement of the works with the flow of resources; monthly estimates of the cash flow to avoid a crisis in liquidity and periodic assignments (monthly and quarterly) of the Ministry of Finance to MINEDUC.
2. Internal restructuring of MINEDUC to define functions and responsibilities at different levels and participants. Improve the supply of services concentrating on priority programs: PRONADE, CONALFA, bilingual education, teaching staff training, and educational texts and material.	<ul style="list-style-type: none"> ▪ Reorganize and simplify the processes at MINEDUC; deconcentration of activities; reduction in the number of offices and the creation of departmental offices. ▪ Complete assignment of the constitutional 1% and the ministerial budget 1% to CONALFA. ▪ Increase in the PRONADE coverage to 152,000 students. ▪ Improvements in the coverage of bilingual education (60 new establishments). ▪ Training programs that reached 51,700 people (teachers, directors, supervisors, trainers, and others).
3. The restrictions that the civil service imposes on contracting highly qualified personnel, must be abided.	<ul style="list-style-type: none"> ▪ There has been no reform to the Civil Service Law.
4. Strengthen PRONADE by clearly defining its role; improve its execution capacity and simplify the inputs and outputs of funds.	<ul style="list-style-type: none"> ▪ The creation of the Trust in order to facilitate the flow of funds (November 1996). ▪ The implementation of the SIAF ▪ Focusing PRONADE's work during the first three years of elementary education and the areas that are most lacking.
5. Transfer the investment in infrastructure to the social funds, although ensuring that they contract companies for the execution of the works. The clear coordination between the Ministry and the funds to ensure the technical details and establish priorities.	<ul style="list-style-type: none"> ▪ 87% of the physical investment is carried out by the social funds. ▪ Contracting the companies for the execution of the projects (FIS) and transfer of resources to the communities or committees (FONAPAZ & FSDC). ▪ Making up a Social Cabinet in which the funds and the ministries participate; nevertheless, it carries out follow-up functions of works and not as much of assessing projects based on the social income-yield capacity and priorities.
6. Increase, at least for the year 2000, public spending executed in education, in relation to the GDP, by 50% over spending executed in 1995.	<ul style="list-style-type: none"> ▪ The education spending executed in 1998 was 2.2% of the GDP.
7. Facilitate the access of 100% of the population between the ages of 7 and 12 to at least three years of schooling before the year 2000.	<ul style="list-style-type: none"> ▪ The children registered in the first three years of elementary education represent 91% of the children between the ages of 7 and 12 (Table III.1).
8. Increase the percentage of literacy to 70% for the year 2000.	<ul style="list-style-type: none"> ▪ Literacy accounts for 68.6% (Table III.1)
9. Carry out the education reform and form commissions – joint and consultative – for the design and implementation.	<ul style="list-style-type: none"> ▪ Formation of the Consultative Commission. ▪ Presentation of the Education Reform Design by the Joint Commission (July 1998).

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HEALTH**

RECOMMENDATIONS	ACTIONS CARRIED OUT
<ul style="list-style-type: none"> Priority must be given to the infrastructure required by the new attention model, the integrated health service system (SIAS), and the rehabilitation of infrastructure and equipment in the new construction areas. 	<ul style="list-style-type: none"> SIAS has been implemented in 11 departments, 8 of which are already receiving the services. SIAS, however, does not require any type of physical infrastructure, except where first-aid kits and biological are given out.
<ul style="list-style-type: none"> It is essential that hospitals establish the order of their priorities in order to achieve a balance between preventive and curative medicine. The improvement of the relationship between the ministry of health and IGSS must be given much attention. 	<ul style="list-style-type: none"> The curative area is more important in the sense of MSPAS total spending (49% in 1998) (Table III.1). IGSS and MSPAS are in the process of establishing cooperation agreements. The MSPAS has not increased the number of hospitals in the national network, but it has begun a maintenance program in 15 hospitals in the departments. Roosevelt Hospital is the hospital that has absorbed 60% of the hospital investment during 1996 and 1997.
<ul style="list-style-type: none"> The cost of each project, including doctors, medical and pharmaceutical supplies, and maintenance must be evaluated carefully, including the possible contribution of external funds. 	<ul style="list-style-type: none"> As far as financial cooperation is concerned, the MSPAS has not received any loan additional to IDB's (Reform Program) for US\$40 million, US\$25 million for MFP to reinforce health spending, and US\$15 million for MSPAS. Another IDB Health-II loan was approved end-1999.
<ul style="list-style-type: none"> The project execution responsibility must be transferred to the social funds, particularly in the case of sanitation and drinking water projects (36% of the health budget), at the same time hiring negotiators for dealing with the private sector, municipalities, and cooperatives. 	<ul style="list-style-type: none"> Drinking water projects were physically, administratively, and financially transferred to the Institute of Municipal Development -INFOM,- because they have better relations and better execution than some social funds. In 1998, only 20% of the investment allocated had been executed during 8 months, as opposed to 58% for 1995.
<ul style="list-style-type: none"> To ascertain the progress of the recent program on health services improvement, which has an important role in: i) restructuring and reforming the health ministry, ii) providing support for increasing coverage and strengthening SIAS; iii) improve public hospital efficiency. These efforts must be consistent with the SIAF project, which focuses on the decentralization of the public sector. <p>Source: Chinchilla and Klose (1998b)</p>	<ul style="list-style-type: none"> The reform program has been implemented with the following results: <ul style="list-style-type: none"> Approval of the Health Code. Implementation of SIAS in 11 departments with a coverage of close to 600,000 persons at an average direct cost of US\$4.85-6 per person per year, for a total of Q66.75 million between 1997 and 1998. 99 agreements have been signed with 85 NGO's up to August 1998. New agreements that will have a coverage of more than 2 million persons by the end of the year will hopefully be signed soon Hospital efficiency has been improved by means of the implementation of administrative management in all hospitals, implementation of an acquisitions program, introduction of maintenance and beginning the externalization of services through a pilot program at Roosevelt Hospital. No cost recovery program has been implemented.

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ROADS**

RECOMMENDATIONS	ACTIONS CARRIED OUT
Strengthen the Roads Directorate Unit at the Ministry's (DGC) institutional capacity for planning investments in the sector.	<ul style="list-style-type: none"> ▪ A 1996-1999 technical training plan was implemented. ▪ Technical assistance for supervision of works was given. ▪ A follow-up program verifies the status of the works. ▪ Planning technical assistance introduces an HDM system for prioritizing, in an economical manner, the road projects, following social, economic, & physical parameters. ▪ Purchase of new maintenance machinery. ▪ Strengthening the environmental management program. ▪ Improvement of the facilities.
Increase number of contracts with private companies for the maintenance of primary & secondary roads.	The number of contracts entered into for maintenance has increased over the last 5 years, from 84 in 1994 to 335 in 1998. The maintenance cost has been reduced, from \$3,000/km/yr for paved roads & Q70,000/km/yr for secondary roads in 1994, to \$2,000/km/yr for paved roads & Q50,000/km/yr for secondary roads in 1998.
The key investment for tertiary & rural roads can be carried out by DGC by contracting the Social Funds and municipalities for the execution.	Currently, DGC is still the entity in charge of programming, supervising, maintaining, & executing tertiary roads. The Social Funds coordinate their execution with DGC, but still depend on DGC's technical capacity. Until 1998, the Municipalities had not participated actively in the construction and maintenance of roads; as of 1999, a pilot project was introduced in the Department of San Marcos so the Municipalities could take care of the maintenance of the rural roads in the area.
Analyze the advantages of forming the Assistant General Office for Tertiary Roads, with specific financial mechanisms.	To this date, this office has not been created, and it is not expected to be done before the next administration. Currently, the Maintenance Department by Contract is the entity in charge of tertiary-road matters.
Improve coordination between the Ministry, the Social Funds, and the Ministry of Economy for the construction, restoration, and maintenance of tertiary roads.	Some degree of coordination exists between DGC and the Social Funds for the development of larger works. Maintenance of tertiary roads is carried out by DGC's Maintenance Department.
Establish work standards for tertiary roads.	<p>In order to ensure that the existent tertiary roads last a long time, the following standards were established:</p> <p>A. Rural roads:</p> <ul style="list-style-type: none"> ▪ One 4-meter wide lane; ▪ made up of 3.60m-wide ballast or covering; ▪ Light traffic; less than 100 vehicles daily; ▪ Maximum 12% slopes; ▪ Average design speed for flat, rolling, or mountainous land of 40km/h, 30km/h, and 20km/h respectively. <p>B. Opportunity Roads Program:</p> <ul style="list-style-type: none"> ▪ Two 3-meter wide lanes (6m total); ▪ made up of a double treatment surface or ballast; ▪ 15 cm granular base and 20 cm granular sub-base; ▪ Traffic greater than 200 vehicles daily; ▪ Design speed of 50km/h for maximum 6% slopes, 40km/h for maximum 8% slopes, and 30 km/h for maximum 10% slopes.
Train the personnel for the Social Funds in obtaining funds, liquidation, and maintenance for road projects.	<p>DGC trains its Social Funds personnel in the following areas:</p> <ul style="list-style-type: none"> ▪ Project planning; ▪ Funds management assistance; & ▪ Monitoring projects management.

Subcontracting the final preparation of the designs for the road projects in ZONAPAZ.	FONAPAZ Road Restoration (support for the basic infrastructure in Ixcán, Quiché) is already being executed; & Construction and Enlargement of 565 km of roads in ZONAPAZ is already advanced. Furthermore, several projects of the Roads Opportunity Program are being executed in ZONAPAZ.
Continue financing the restoration and enlargement of the roads between the borders.	In the 1996-2001 Roads Development Plan, the restoration and enlargement of the Rutas Centroamericanas is contemplated.
<p>Reduce restoration costs by means of:</p> <ol style="list-style-type: none"> 1. Allow greater participation of foreign entities to submit offers. 2. Greater decentralization represents sharing more costs with the Municipalities. 3. Paving tertiary roads when the cost compared to its useful expectancy justifies it. 	<ul style="list-style-type: none"> ▪ The greater road construction &/or restoration contracts greater than US\$1.5 million) are awarded by means of an international public bid. The publication appears in the Development Business newspaper, 3 national newspapers (including the official newspaper), and also, all the countries that are members of the donator organization will be invited to participate. This way, foreign companies represent 60 to 100% of the offers. The participation of foreign companies has increased competition levels in Guatemala, causing a reduction in construction prices and in the rendering of related services. ▪ There exists a pilot project in San Marcos so that by means of planning and channeling INFOM resources and the coordination of DGC, the Municipalities (making up an association of municipalities) become in charge of the maintenance of rural roads. The Municipalities will contribute with around US\$1 million during the first four years and will be in charge of the project as of the fifth year. The foresight for this project is to become self-financed. ▪ In 1999, a study will be carried out in order to determine the strategy related to tertiary roads.
Technical strengthening of the Roads Maintenance Fund (COVIAL).	<ul style="list-style-type: none"> ▪ Technical assistance plan. ▪ Strengthening planning by means of a new activities, budget, and maintenance programming outline. ▪ Expert support from international advisors. ▪ Training by means of conventions and specialized courses. ▪ Implementation of the Integrated Maintenance Administrative system (SAMI) with which road conditions are diagnosed digitally.
Collection of other funds by means of concessions and tolls in selected cases.	This only exists on the road from Palín to Escuintla, and no other project of this type is being contemplated in the short or medium term. The organization of the current roadways makes this process difficult because the possible roads, which could be granted, do not have alternate routes. In any manner, there will be a study of the possibility of carrying out concession projects for the 2000-2010 Road Development Plan.

Source: Chinchilla and Ruata (1998a)

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POWER**

RECOMMENDATIONS	ACTIONS CARRIED OUT
1. Contemplate regulation and norms to support the General Law for Electricity.	<ul style="list-style-type: none"> ▪ Regulations issued for recommendations 2, 3, 4, & 5 in this Table.
2. Implement the market mechanisms to establish the tariffs contemplated by the General Law for Electricity.	<ul style="list-style-type: none"> ▪ Resolution CNEE N°15-98, 26-98, & 27-98 "Mechanisms to establish base tariffs, their maximum values, and the periodic adjustment formulas, as well as the general tariff application conditions for all regulated consumers of the final distribution system."
3. Accelerate the establishment of the Comisión Nacional de Electricidad (National Committee for Electricity).	<ul style="list-style-type: none"> ▪ The National Committee for Joint Implementation (June 27, 1997) is created by means of Governmental Agreement N°474-97.
4. Complete the restructuring of INDE.	<ul style="list-style-type: none"> ▪ INDE is separated according to law among 3 companies (October 27, 1997): <ol style="list-style-type: none"> 1. INDE's Electric Power Generation Company (EGEE) 2. Transportation & Electric Power Control Company (ETCEE) – Agreement N°OM-273-98. 3. INDE's Electric Power Distribution Company (EDEE) ▪ INDE's Purchase and Contracting Regulations are published (April 20, 1998).
5. Contemplate EEGSA's division.	<ul style="list-style-type: none"> ▪ By means of Agreement N°OM-158-98, definite authorization is granted (without exclusiveness) to EEGSA to render final distribution services pertaining to power in the whole Departments of Guatemala, Sacatepéquez, and Escuintla. ▪ By means of Agreement N°865-98, the transferring of the onerous title of stock, which the State of Guatemala owns in EEGSA, is authorized. ▪ 80% of the Government's stocks in EEGSA are sold at US\$520 million. 16% of all the stock will be offered to priority investors, such as EEGSA employees and national entrepreneurs, and the last 4% will remain in the hands of private investors.
6. Promote private participation in the distribution, as well as the generation.	<ul style="list-style-type: none"> ▪ Resolution CNEE No13-98 "Distribution Service Technical Norms" (NTSD)
7. Before selling and assuming an adjustment in tariffs, divide EEGSA's activity into two companies that cover areas that do not overlap in the City of Guatemala, in order to generate yardstick competition.	<ul style="list-style-type: none"> ▪ The tariff adjustment was carried out during the second semester of 1997, and the sale of 80% of EEGSA's stock was carried in July 1998, without dividing regions.
8. Conclude the crossed debt negotiations between the state entities and the government.	<ul style="list-style-type: none"> ▪ As a result of the sale of EEGSA, the government will pay the debt it has with INDE in the amount of US\$300,000.
9. Introduce commercial terms in the relations between the municipalities that purchase in bloc, requiring they purchase from private entities and not from INDE.	<ul style="list-style-type: none"> ▪ The tariffs that are charged are negotiated (or regulated, if so be the case). INDE is financing the works, but the communities, together with the municipalities, are in charge of the execution.
10. In order to promote competition in the generation and allow for the development of a wholesale market, PPA contracts must be avoided. In their place, EEGSA contracts must only guarantee payments of the load capacity (fixed costs).	<ul style="list-style-type: none"> ▪ The signing of new PPA contracts is avoided and the effectiveness of the Wholesale Market (which operates as a "power bag") is the new mechanism to achieve transparency in the negotiation.
11. The interconnection projects must be carried out by the communities, not by INDE.	<ul style="list-style-type: none"> ▪ A few communities are implementing power projects and a rural electricity plan is on the move.

Source: Prera and Urizar (1998)

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TELECOMMUNICATIONS

RECOMMENDATIONS	ACTIONS CARRIED OUT
1. To create the General Telecommunications Law	<ul style="list-style-type: none"> On October 17, 1996, Decree 94-96 was enacted, containing the General Telecommunications Law, which has, as a main objective, to liberalize the sector.
2. To establish a technical regulating entity	<ul style="list-style-type: none"> The General Telecommunications Law, by means of its Title II, Article 5, creates the Telecommunications Superintendency, an eminently technical body, whose main responsibility is enforcing the Law.
3. To rebalance the rates	<ul style="list-style-type: none"> GUATEL changed its telephone rates for both local and international call, in agreement with a system that should reflect the service costs, eliminating the crossed subsidy that existed between international and local rates. (Feb. 1997)
4. To reduce the personnel costs of the state entity GUATEL	<ul style="list-style-type: none"> In April 1998, severance payments were paid to GUATEL's ex-employees (Q300.0 million) and TELGUA, S.A. followed a competitive process for rehiring
5. To negotiate with central government the amounts of the profits to be transferred annually	<ul style="list-style-type: none"> On one hand TELGUA, S.A., now pays taxes like any private entity. GUATEL still transfers its profit only to the extent that it generates operational profits.
6. To adopt more efficient mechanisms for the installation of rural telephones	<ul style="list-style-type: none"> The Law created Rural Telephone Development Fund (FONDETEL), which acts as a channel for the funds necessary for the introduction of infrastructure of telecommunications in the most needy regions.

Source: Prera and Urizar (1998)

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Table 1. Guatemala: Growth and Investment

Period	% GDP		As % of GDP		Pub Inv/
	growth	ICOR	Priv. Inv.	Pub. Inv.	Gross Inv
1950-54	2.3	4.9	6.1	2.8	31.9
1955-59	5.4	3.1	8.7	4.9	35.5
1960-64	4.9	2.7	7.8	2.5	24.4
1965-69	5.5	2.5	9.9	2.8	22.6
1970-74	6.4	1.9	11.4	3.0	21.1
1975-79	5.4	3.3	15.2	4.4	22.4
1980-84	-0.2	6.6	8.6	5.6	38.8
1985-89	2.2	10.1	10.0	2.5	20.1
1990-94	3.9	2.6	13.3	2.5	16.2
1995-98*	4.4	2.8	11.3	2.7	19.2
1950-59	4.0	3.9	7.4	3.8	33.7
1960-69	5.2	2.6	8.8	2.7	23.5
1970-79	5.9	2.6	13.3	3.7	21.8
1980-89	1.0	8.4	9.3	4.1	29.5
1990-98*	4.1	2.7	12.6	2.7	17.6

Sources: Bank of Guatemala and Ministry of Finance.

* Data for 1998 are preliminary figures.

Table 2. Guatemala: Combined Public Sector Expenditures, 1984-98 /1
(Millions of Quetzales)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 ^p	1998 ^q
Total Expenditure	1539.4	1872.7	2375.9	2830.1	3843.2	4400.3	5541.9	5998.0	7144.9	9030.8	9880.6	10999.6	12513.1	14506.4	18288.5
o/w Total non-debt	1375.2	1439.6	1864.9	2240.2	2943.7	3449.6	3935.4	4411.9	5682.8	7088.7	7404.6	8323.4	9286.1	10964.4	13337.4
Recurrent	1186.5	1555.9	2042.6	2413.5	3084.1	3516.9	4384.5	4703.1	5753.0	6933.6	7400.1	8200.6	9332.2	9406.1	11290.1
Wages & Salaries	595.0	653.4	903.8	1083.8	1276.9	1452.7	1424.7	1685.9	2278.9	2772.3	2947.1	3402.2	3358.3	3625.6	4585.1
Goods & Services	321.4	336.7	437.7	545.6	707.6	826.2	834.8	879.1	1189.6	1311.2	1214.4	1217.8	1492.3	1765.2	2147.6
Interest & BOG losses	152.5	427.6	487.4	545.9	735.0	761.1	1343.9	1416.0	1386.6	1590.3	1904.6	2002.0	2418.5	1736.3	1810.5
Foreign interest	51.3	33.7	74.4	90.0	146.6	189.6	291.4	317.3	384.8	321.6	539.2	582.1	606.5	452.0	567.8
Domestic interest	58.8	60.9	182.6	202.8	260.4	274.5	324.5	349.1	376.5	546.0	449.0	625.6	673.4	480.3	898.5
BOG losses ²	42.4	333.0	230.4	253.1	328.0	297.0	728.0	749.6	625.3	722.7	916.4	794.3	1138.6	803.9	344.2
Other recurrent	117.6	138.2	213.7	238.2	364.6	476.9	781.1	722.1	897.9	1259.8	1334.0	1578.6	2063.1	2279.0	2746.9
Recurrent (excl. Interest)	1034.0	1128.3	1555.2	1867.6	2349.1	2755.8	3040.6	3287.1	4366.4	5343.3	5495.5	6198.6	6913.7	7669.8	9479.6
Capital Expenditures	352.9	316.8	333.3	416.6	759.1	883.4	1157.4	1294.9	1391.9	2097.2	2480.5	2799.0	3180.9	5100.3	6998.4
o/w Capital (non-financial)	341.2	311.3	309.7	372.6	594.6	693.8	894.8	1124.8	1316.4	1745.4	1909.1	2124.8	2372.4	3294.6	3857.8
Revenues	1189.4	1390.5	2016.4	2410.3	2976.9	3161.5	4095.6	5155.5	7181.9	7438.2	8138.9	10260.1	12384.0	14241.8	15885.1
Fiscal Surplus/Deficit	-350.0	-482.2	-359.5	-419.8	-866.3	-1238.8	-1446.3	-842.5	37.0	-1592.6	-1741.7	-739.5	-129.1	-264.5	-2403.4
Memo: Current GDP	9470.3	11180.0	15838.1	17711.1	20545.1	23684.6	34316.9	47302.3	53985.4	64243.2	74669.2	85156.7	95478.6	107873.4	121127.3
Average CPI (1992=100)	21.4	25.4	34.8	39.2	43.4	48.3	68.2	90.9	100.0	111.8	124.0	134.4	149.2	163.0	174.4

^p denotes preliminary data and ^q World Bank estimates using preliminary data from the Ministry of Finance.

¹ Capital expenditure data have been reclassified using the new accounting methodology introduced in 1997, thus they differ from the one presented on the rest of this Statistical Annex. ² Actual data for the whole period. Annual flows.

Source: Ministry of Finance, IMF and World Bank staff estimates.

Table 3. Guatemala: Combined Public Sector Expenditure, 1984-98
(As percent of GDP)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 ^p	1998 ^q
Total Expenditure	16.3	16.8	15.0	16.0	18.7	18.6	16.1	12.7	13.2	14.1	13.2	12.9	13.1	13.4	15.1
o/w Total non-debt	14.5	12.9	11.8	12.6	14.3	14.6	11.5	9.3	10.5	11.0	9.9	9.8	9.7	10.2	11.0
Recurrent	12.5	13.9	12.9	13.6	15.0	14.8	12.8	9.9	10.7	10.8	9.9	9.6	9.8	8.7	9.3
Wages & Salaries	6.3	5.8	5.7	6.1	6.2	6.1	4.2	3.6	4.2	4.3	3.9	4.0	3.5	3.4	3.8
Goods & Services	3.4	3.0	2.8	3.1	3.4	3.5	2.4	1.9	2.2	2.0	1.6	1.4	1.6	1.6	1.8
Interest & BOG losses	1.6	3.8	3.1	3.1	3.6	3.2	3.9	3.0	2.6	2.5	2.6	2.4	2.5	1.6	1.5
Foreign interest	0.5	0.3	0.5	0.5	0.7	0.8	0.8	0.7	0.7	0.5	0.7	0.7	0.6	0.4	0.5
Domestic interest	0.6	0.5	1.2	1.1	1.3	1.2	0.9	0.7	0.7	0.8	0.6	0.7	0.7	0.4	0.7
BOG losses	0.4	3.0	1.5	1.4	1.6	1.3	2.1	1.6	1.2	1.1	1.2	0.9	1.2	0.7	0.3
Other recurrent	1.2	1.2	1.3	1.3	1.8	2.0	2.3	1.5	1.7	2.0	1.8	1.9	2.2	2.1	2.3
Recurrent (excl. Interest)	10.9	10.1	9.8	10.5	11.4	11.6	8.9	6.9	8.1	8.3	7.4	7.3	7.2	7.1	7.8
Capital Expenditures	3.7	2.8	2.1	2.4	3.7	3.7	3.4	2.7	2.6	3.3	3.3	3.3	3.3	4.7	5.8
o/w Capital (non-financial)	3.6	2.8	2.0	2.1	2.9	2.9	2.6	2.4	2.4	2.7	2.6	2.5	2.5	3.1	3.2
Revenues	12.6	12.4	12.7	13.6	14.5	13.3	11.9	10.9	13.3	11.6	10.9	12.0	13.0	13.2	13.1
Fiscal Surplus/Deficit	-3.7	-4.3	-2.3	-2.4	-4.2	-5.2	-4.2	-1.8	0.1	-2.5	-2.3	-0.9	-0.1	-0.2	-2.0
Memo: Net transfers	1.4	1.3	1.5	1.6	2.6	2.8	3.0	1.9	1.8	2.5	2.6	2.6	3.0	3.8	4.9

Source: Statistical Appendix, Table 2.

Table 4. Guatemala: Combined Public Sector Expenditure, 1984-98
(Millions of 1992 Quetzales)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 ^P	1998 ^a
Total Expenditure	7180.3	7360.6	6817.7	7227.0	8861.3	9106.5	8121.0	6602.0	7144.9	8076.6	7971.2	8184.9	8385.3	8898.9	10487.8
o/w Total non-debt	6414.4	5658.3	5351.4	5720.6	6787.3	7139.0	5766.8	4856.2	5682.8	6339.7	5973.7	6193.5	6222.8	6726.1	7648.5
Recurrent	5534.3	6115.4	5861.3	6163.2	7111.0	7278.3	6424.9	5176.8	5753.0	6201.0	5970.1	6102.1	6253.7	5770.2	6474.5
Wages & Salaries	2775.3	2568.2	2593.5	2767.6	2944.2	3006.4	2087.7	1855.7	2278.9	2479.4	2377.6	2531.6	2250.5	2224.1	2629.4
Goods & Services	1499.1	1323.4	1256.0	1393.3	1631.5	1709.8	1223.3	967.6	1189.6	1172.7	979.7	906.2	1000.0	1082.9	1231.5
Interest & BOG losses	711.3	1680.7	1398.6	1394.0	1694.7	1575.1	1969.3	1558.6	1386.6	1422.3	1536.6	1489.7	1620.7	1065.1	1038.3
Foreign interest	239.3	132.5	213.5	229.8	338.0	392.4	427.0	349.3	384.8	287.6	435.0	433.1	406.4	277.3	325.6
Domestic interest	274.3	239.4	524.0	517.9	600.4	568.1	475.5	384.3	376.5	488.3	362.2	465.5	451.3	294.7	515.3
BOG losses	197.8	1308.8	661.1	646.3	756.3	614.6	1066.8	825.1	625.3	646.3	739.3	591.0	763.0	493.2	197.4
Other recurrent	548.5	543.2	613.2	608.3	840.7	987.0	1144.6	794.9	897.9	1126.7	1076.2	1174.6	1382.5	1398.1	1575.2
Recurrent (excl. Interest)	4822.9	4434.7	4462.7	4769.1	5416.3	5703.2	4455.6	3618.2	4366.4	4778.7	4433.5	4612.4	4633.0	4705.0	5436.2
Capital expenditures	1646.1	1245.2	956.4	1063.8	1750.3	1828.2	1696.0	1425.2	1391.9	1875.6	2001.2	2082.7	2131.6	3128.8	4013.3
o/w Capital (non-financial)	1591.5	1223.6	888.7	951.5	1371.0	1435.8	1311.2	1238.1	1316.4	1561.0	1540.2	1581.1	1589.8	2021.1	2212.3
Revenues	5547.8	5465.3	5786.1	6155.0	6863.9	6542.8	6001.5	5674.7	7181.9	6652.3	6566.1	7634.6	8298.7	8736.7	9109.6
Fiscal Surplus/Deficit	-1632.5	-1895.3	-1031.6	-1072.0	-1997.4	-2563.7	-2119.4	-927.3	37.0	-1424.3	-1405.1	-550.3	-86.5	-162.3	-1378.2

Source: Statistical Appendix, Table 2.

Table 5. Guatemala: Total Expenditure of Central Government by Sector (Millions of Quetzales)

Sector	1992	1993	1994	1995	1996	1997	1998 ²	1999 ²	2000 ²
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Public Debt Management ¹	1157.0	1357.5	1734.6	1839.3	2266.9	1629.9	1704.7	1815.4	2680.8
Internal	363.5	443.3	426.1	594.0	650.1	456.4	885.3	707.8	1089.1
External	168.2	191.5	392.1	451.0	478.2	369.6	475.2	807.5	1088.7
BOG losses	625.3	722.7	916.4	794.3	1138.6	803.9	344.2	300.0	503.0
Administration and General Services	691.0	900.5	751.6	1062.3	941.4	1050.0	1343.6	1524.9	2130.0
Defense and Public Order	785.1	869.1	1008.4	1132.0	1074.2	1219.6	1476.3	1551.6	1961.3
Economic Infrastructure & Services	1541.9	1491.0	1307.4	1471.8	2016.4	3525.6	4124.9	4242.5	5851.5
Roads and Transport	552.1	498.8	582.6	783.1	1089.7	1747.3	2045.4	1741.7	2427.2
Communications	44.2	45.9	51.6	49.1	43.9	47.9	69.4	72.5	431.1
Energy	585.3	398.4	111.0	88.7	114.2	119.2	188.5	181.4	496.2
Agriculture and Mining	182.5	259.5	313.9	291.4	262.1	323.2	414.1	562.1	643.4
Finance, Industry and Other Activities	177.8	288.4	248.3	259.5	506.5	1288.0	1407.5	1684.9	1853.6
Social Sectors	2205.4	2895.2	3100.5	3296.5	3636.2	4813.1	7125.1	8145.7	9195.3
Education, Science and Culture	922.4	1158.0	1346.2	1411.9	1504.6	1900.0	2617.1	3039.32	3676.3
Health, Environment & Other Activities	525.7	623.5	701.5	750.4	805.7	1106.2	1377.4	1829.4	1926.7
Housing and Urban Development	298.5	597.8	461.3	534.4	693.4	1024.9	2078.3	1796.93	2157.9
of which, Housing	22.1	50.6	23.7	14.2	33.0	68.0	673.7	214.1	300.5
Municipal Works	228.7	368.7	368.7	497.8	563.5	906.0	1215.9	1325.16	1566.9
Community Dev. & Social Services	458.8	515.9	591.5	599.8	632.5	782.0	1052.3	1480.1	1434.4
Total	6380.4	7513.3	7902.5	8801.9	9935.1	12238.2	15774.6	17280.1	21818.9
Memo: Central Government Deficit	-510.6	-1288.3	-1230.2	-519.7	-177.2	-512.4	-2988.6	-3698.5	-4545.2
Expenditures by Social Funds	47.3	192.5	351.6	395.8	412.2	971.0	1888.7	1677.6	2054.6
Current GDP	53985.4	64243.2	74669.2	85156.7	95478.6	107873.4	121127.3	133736.5	146489.0
Average CPI (1992=100)	100.0	111.8	124.0	134.4	149.2	163.0	174.4	183.0	193.4

¹ IMF data for 1990-96, Ministry of Finance and World Bank staff estimates for the rest. Excludes capital amortization.

² In 1997 a new system for government financial management was introduced. To ensure comparability, the Staff reclassified figures for 1998-2000 that are compatible with the old series. IMF and IFMS staff are working together to reclassify historical data according to the new budget classification. It does not include any budget expansion.

Table 6. Guatemala: Total Expenditure of Central Government by Sector (% of GDP)

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Public Debt Management	2.1	2.1	2.3	2.2	2.4	1.5	1.4	1.4	1.8
Internal	0.7	0.7	0.6	0.7	0.7	0.4	0.7	0.5	0.7
External	0.3	0.3	0.5	0.5	0.5	0.3	0.4	0.6	0.7
BOG losses	1.2	1.1	1.2	0.9	1.2	0.7	0.3	0.2	0.3
Administration and General Services	1.3	1.4	1.0	1.2	1.0	1.0	1.1	1.1	1.5
Defense and Public Order	1.5	1.4	1.4	1.3	1.1	1.1	1.2	1.2	1.3
Economic Infrastructure & Services	2.9	2.3	1.8	1.7	2.1	3.3	3.4	3.2	4.0
Roads and Transport	1.0	0.8	0.8	0.9	1.1	1.6	1.7	1.3	1.7
Communications	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.3
Energy	1.1	0.6	0.1	0.1	0.1	0.1	0.2	0.1	0.3
Agriculture and Mining	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Finance, Industry and Other Activities	0.3	0.4	0.3	0.3	0.5	1.2	1.2	1.3	1.3
Social Sectors	4.1	4.5	4.2	3.9	3.8	4.5	5.9	6.1	6.3
Education, Science and Culture	1.7	1.8	1.8	1.7	1.6	1.8	2.2	2.3	2.5
Health, Environment & Other Activities	1.0	1.0	0.9	0.9	0.8	1.0	1.1	1.4	1.3
Housing and Urban Development	0.6	0.9	0.6	0.6	0.7	1.0	1.7	1.3	1.5
of which, Housing	0.0	0.1	0.0	0.0	0.0	0.1	0.6	0.2	0.2
Municipal Works	0.4	0.6	0.5	0.6	0.6	0.8	1.0	1.0	1.1
Community Dev & Social Services	0.8	0.8	0.8	0.7	0.7	0.7	0.9	1.1	1.0
Total	11.8	11.7	10.6	10.3	10.4	11.3	13.0	12.9	14.9
Memo: Central Government Deficit	-0.9	-2.0	-1.6	-0.6	-0.2	-0.5	-2.5	-2.8	-3.1
Expenditures by Social Funds	0.1	0.3	0.5	0.5	0.4	0.9	1.6	1.3	1.4

Source: Statistical Appendix, Table 5.

Table 7. Guatemala: Total Expenditure of Central Government (Millions of 1992 Quetzales)

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Public Debt Management	1157.0	1214.1	1399.4	1368.6	1519.1	999.9	977.6	992.1	1386.1
Internal	363.5	396.5	343.8	442.0	435.6	280.0	507.7	386.8	563.1
External	168.2	171.3	316.3	335.6	320.5	226.7	272.5	441.3	562.9
BOG losses	625.3	646.3	739.3	591.0	763.0	493.2	197.4	164.0	260.1
Administration and General Services	691.0	805.4	606.4	790.5	630.8	644.1	770.5	833.4	1101.3
Defense and Public Order	785.1	777.3	813.5	842.3	719.8	748.2	846.6	848.0	1014.1
Economic Infrastructure & Services	1541.9	1333.5	1054.8	1095.1	1351.2	2162.8	2365.5	2318.6	3025.5
Roads and Transport	552.1	446.1	470.0	582.7	730.2	1071.9	1173.0	951.9	1255.0
Communications	44.2	41.1	41.6	36.5	29.4	29.4	39.8	39.6	222.9
Energy	585.3	356.3	89.6	66.0	76.5	73.1	108.1	99.1	256.6
Agriculture and Mining	182.5	232.1	253.3	216.8	175.6	198.3	237.5	307.2	332.7
Finance, Industry and Other Activities	177.8	257.9	200.3	193.1	339.4	790.1	807.1	920.8	958.4
Social Sectors	2205.4	2589.3	2501.4	2452.9	2436.7	2952.6	4086.0	4451.8	4754.4
Education, Science and Culture	922.4	1035.6	1086.1	1050.6	1008.3	1165.6	1500.8	1661.0	1900.8
Health, Environment & Other Activities	525.7	557.6	565.9	558.4	539.9	678.6	789.9	999.8	996.2
Housing and Urban Development	298.5	534.6	372.2	397.6	464.7	628.7	1191.8	982.1	1115.7
of which, Housing	22.1	45.3	19.1	10.5	22.1	41.7	386.3	117.0	155.4
Municipal Works	228.7	329.7	297.5	370.4	377.6	555.8	697.3	724.2	810.2
Community Dev & Social Services	458.8	461.4	477.2	446.3	423.9	479.7	603.5	808.9	741.7
Total	6380.4	6719.5	6375.4	6549.5	6657.7	7507.5	9046.2	9443.9	11281.4

Source: Statistical Appendix, Table 5.

Table 8. Guatemala: Total Expenditure of Central Government (% of Total Current Quetzales)

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Public Debt Management	18.1	18.1	21.9	20.9	22.8	13.3	10.8	10.5	12.3
Internal	5.7	5.9	5.4	6.7	6.5	3.7	5.6	4.1	5.0
External	2.6	2.5	5.0	5.1	4.8	3.0	3.0	4.7	5.0
BOG losses	9.8	9.6	11.6	9.0	11.5	6.6	2.2	1.7	2.3
Administration and General Services	10.8	12.0	9.5	12.1	9.5	8.6	8.5	8.8	9.8
Defense and Public Order	12.3	11.6	12.8	12.9	10.8	10.0	9.4	9.0	9.0
Economic Infrastructure & Services	24.2	19.8	16.5	16.7	20.3	28.8	26.1	24.6	26.8
Roads and Transport	8.7	6.6	7.4	8.9	11.0	14.3	13.0	10.1	11.1
Communications	0.7	0.6	0.7	0.6	0.4	0.4	0.4	0.4	2.0
Energy	9.2	5.3	1.4	1.0	1.1	1.0	1.2	1.0	2.3
Agriculture and Mining	2.9	3.5	4.0	3.3	2.6	2.6	2.6	3.3	2.9
Finance, Industry and Other Activities	2.8	3.8	3.1	2.9	5.1	10.5	8.9	9.8	8.5
Social Sectors	34.6	38.5	39.2	37.5	36.6	39.3	45.2	47.1	42.1
Education, Science and Culture	14.5	15.4	17.0	16.0	15.1	15.5	16.6	17.6	16.8
Health, Environment & Other Activities	8.2	8.3	8.9	8.5	8.1	9.0	8.7	10.6	8.8
Housing and Urban Development	4.7	8.0	5.8	6.1	7.0	8.4	13.2	10.4	9.9
of which, Housing	0.3	0.7	0.3	0.2	0.3	0.6	4.3	1.2	1.4
Municipal Works	3.6	4.9	4.7	5.7	5.7	7.4	7.7	7.7	7.2
Community Dev & Social Services	7.2	6.9	7.5	6.8	6.4	6.4	6.7	8.6	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Memo: Expenditures by Social Funds</i>	0.7	2.6	4.4	4.5	4.1	7.9	12.0	9.7	9.4

Source: Statistical Appendix, Table 5.

Table 9. Guatemala: Capital Expenditures of Central Government, by Sector (Millions of Quetzales)

Sector	1992 Actual	1993 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 ¹ Actual	1999 ¹ Budget	2000 ¹ Budget
Administration and General Services	75.7	207.8	133.2	355.5	96.4	142.6	197.3	271.6	732.1
Defense and Public Order	54.9	36.0	44.0	130.6	73.7	132.1	82.7	117.1	109.4
Economic Infrastructure & Services	997.2	940.4	760.5	904.3	1212.9	2412.8	2444.5	2596.6	3575.7
Roads and Transport	353.5	383.7	476.9	672.6	996.2	1662.4	1902.5	1760.7	2211.6
Communications	2.0	6.7	1.6	0.6	0.1	0.0	10.1	28.2	349.8
Energy	583.4	364.7	94.9	47.7	54.9	115.3	184.4	194.2	487.2
Agriculture and Mining	53.4	117.6	166.4	167.2	157.8	172.2	227.9	428.6	390.5
Finance, Industry and Other Activities	4.9	67.7	20.7	16.2	4.0	462.9	119.5	184.9	136.6
Social Sectors	436.4	777.1	781.6	856.3	1096.6	1668.3	2840.1	3114.9	2708.0
Education, Science and Culture	83.3	90.5	163.3	152.3	163.3	267.8	519.5	631.8	226.7
Health, Environment & Other Activities	73.0	104.5	164.6	181.8	246.1	390.8	247.0	431.2	341.1
Housing and Urban Development	279.7	581.6	451.1	519.8	684.2	1009.7	2071.7	2048.9	2134.9
of which, Housing	22.0	50.3	23.7	13.5	25.2	67.2	668.9	290.2	295.3
Municipal Works	228.7	368.7	368.7	497.8	563.5	896.5	1215.9	1472.4	1566.9
Community Devel. & Social Services	0.4	0.5	2.6	2.4	3.0	0.0	2.0	3.0	5.3
Total	1564.2	1961.3	1719.3	2246.7	2479.6	4355.8	5564.7	6100.2	7125.2
Memo: Expenditures by Social Funds	47.3	192.5	351.6	395.8	412.2	971.0	1888.7	1677.6	2054.6

¹ In 1997 a new system for government financial management was introduced. To ensure comparability, the Staff reclassified figures for 1998-2000 that are compatible with the old series. IMF and IFMS staff are working together to reclassify historical data according to the new budget classification. It does not include any budget expansion.

Source: Ministry of Finance

Table 10. Guatemala: Capital Expenditures of Central Government (% of GDP)

Sector	1992 Actual	1993 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Budget	2000 Budget
Administration and Gen. Services	0.1	0.3	0.2	0.4	0.1	0.1	0.2	0.2	0.5
Defense and Public Order	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Economic Infrastructure & Services	1.8	1.5	1.0	1.1	1.3	2.2	2.0	1.9	2.4
Roads and Transport	0.7	0.6	0.6	0.8	1.0	1.5	1.6	1.3	1.5
Communications	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Energy	1.1	0.6	0.1	0.1	0.1	0.1	0.2	0.1	0.3
Agriculture and Mining	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Finance, Industry and Other Activities	0.0	0.1	0.0	0.0	0.0	0.4	0.1	0.1	0.1
Social Sectors	0.8	1.2	1.0	1.0	1.1	1.5	2.3	2.3	1.8
Education, Science and Culture	0.2	0.1	0.2	0.2	0.2	0.2	0.4	0.5	0.2
Health, Environment & Other Activities	0.1	0.2	0.2	0.2	0.3	0.4	0.2	0.3	0.2
Housing and Urban Development	0.5	0.9	0.6	0.6	0.7	0.9	1.7	1.5	1.5
of which, Housing	0.0	0.1	0.0	0.0	0.0	0.1	0.6	0.2	0.2
Municipal Works	0.4	0.6	0.5	0.6	0.6	0.8	1.0	1.1	1.1
Community Dev & Social Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	2.9	3.1	2.3	2.6	2.6	4.0	4.6	4.6	4.9
Memo: Expenditures by Social Funds	0.1	0.3	0.5	0.5	0.4	0.9	1.6	1.3	1.4

Sources: Statistical Appendix, Tables 5 and 9.

Table 11. Guatemala: Capital Expenditures of Central Government (Millions of 1992 Quetzales)

Sector	1992 Actual	1993 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Budget	2000 Budget
Administration and General Services	75.7	185.8	107.5	264.5	64.6	87.5	113.1	148.4	378.5
Defense and Public Order	54.9	32.2	35.5	97.2	49.4	81.0	47.4	64.0	56.6
Economic Infrastructure & Services	997.2	841.0	613.5	672.9	812.8	1480.1	1401.8	1419.1	1848.8
Roads and Transport	353.5	343.2	384.7	500.5	667.6	1019.8	1091.0	962.3	1143.5
Communications	2.0	6.0	1.3	0.4	0.0	0.0	5.8	15.4	180.9
Energy	583.4	326.2	76.6	35.5	36.8	70.7	105.7	106.1	251.9
Agriculture and Mining	53.4	105.2	134.2	124.4	105.7	105.6	130.7	234.2	201.9
Finance, Industry and Other Activities	4.9	60.5	16.7	12.1	2.7	284.0	68.6	101.1	70.6
Social Sectors	436.4	695.0	630.6	637.2	734.9	1023.4	1628.7	1702.4	1400.2
Education, Science and Culture	83.3	80.9	131.7	113.3	109.4	164.3	297.9	345.3	117.2
Health, Environment & Other Activities	73.0	93.5	132.8	135.3	164.9	239.7	141.6	235.7	176.4
Housing and Urban Development	279.7	520.1	363.9	386.8	458.5	619.4	1188.0	1119.8	1103.8
of which, Housing	22.0	45.0	19.1	10.0	16.9	41.2	383.6	158.6	152.7
Municipal Works	228.7	329.7	297.5	370.4	377.6	550.0	697.3	804.7	810.2
Community Devel. & Social Services	0.4	0.4	2.1	1.8	2.0	0.0	1.1	1.6	2.7
Total	1564.2	1754.1	1387.1	1671.8	1661.6	2672.1	3191.1	3333.9	3684.1
<i>Memo</i> : Expenditures by Social Funds	47.3	172.2	283.7	294.5	276.2	595.7	1083.1	916.8	1062.3

Sources: Statistical Appendix, Tables 5 and 9. les 5 and 9.

Table 12. Guatemala: Capital Expenditures of Central Government (% of Total Current Quetzales)

Sector	1992 Actual	1993 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Budget	2000 Budget
Administration and General Services	4.8	10.6	7.7	15.8	3.9	3.3	3.5	4.5	10.3
Defense and Public Order	3.5	1.8	2.6	5.8	3.0	3.0	1.5	1.9	1.5
Economic Infrastructure & Services	63.8	47.9	44.2	40.3	48.9	55.4	43.9	42.6	50.2
Roads and Transport	22.6	19.6	27.7	29.9	40.2	38.2	34.2	28.9	31.0
Communications	0.1	0.3	0.1	0.0	0.0	0.0	0.2	0.5	4.9
Energy	37.3	18.6	5.5	2.1	2.2	2.6	3.3	3.2	6.8
Agriculture and Mining	3.4	6.0	9.7	7.4	6.4	4.0	4.1	7.0	5.5
Finance, Industry and Other Activities	0.3	3.5	1.2	0.7	0.2	10.6	2.1	3.0	1.9
Social Sectors	27.9	39.6	45.5	38.1	44.2	38.3	51.0	51.1	38.0
Education, Science and Culture	5.3	4.6	9.5	6.8	6.6	6.1	9.3	10.4	3.2
Health, Environment & Other Activities	4.7	5.3	9.6	8.1	9.9	9.0	4.4	7.1	4.8
Housing and Urban Development	17.9	29.7	26.2	23.1	27.6	23.2	37.2	33.6	30.0
of which, Housing	1.4	2.6	1.4	0.6	1.0	1.5	12.0	4.8	4.1
Municipal Works	14.6	18.8	21.4	22.2	22.7	20.6	21.9	24.1	22.0
Community Dev & Social Services	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Memo</i> : Expenditures by Social Funds	3.0	9.8	20.5	17.6	16.6	22.3	33.9	27.5	28.8

Sources: Statistical Appendix, Tables 5 and 9.

Table 13-A. Guatemala: Programmed and Actual Expenditures of the Central Government (Millions of Quetzales)

Sector	1994			1995			1996			1997			1998		
	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.
Public Debt Management ¹	469.7	818.2	74.2	864.3	1045.0	20.9	1065.8	1128.3	5.9	819.7	826.0	0.8	1385.4	1360.5	-1.8
Internal	163.6	426.1	160.5	270.3	594.0	119.8	415.7	650.1	56.4	362.4	456.4	25.9	481.8	885.3	83.7
External	306.1	392.1	28.1	594.0	451.0	-24.1	650.1	478.2	-26.4	457.3	369.6	-19.2	903.6	475.2	-47.4
Administration and Gen. Services	1060.4	751.6	-29.1	1519.0	1062.3	-30.1	1799.5	941.4	-47.7	2204.4	1050.0	-52.4	2708.9	1343.6	-50.4
Defense and Public Order	1014.5	1008.4	-0.6	1157.6	1132.0	-2.2	1138.3	1074.2	-5.6	1232.3	1219.6	-1.0	1519.3	1476.3	-2.8
Economic Infrastructure & Services:	1330.5	1307.4	-1.7	1553.8	1471.8	-5.3	2448.9	2016.4	-17.7	3003.1	3525.6	17.4	3466.6	4124.9	19.0
Roads and Transport	785.7	582.6	-25.8	1072.4	783.1	-27.0	1425.2	1089.7	-23.5	2259.0	1747.3	-22.7	2351.1	2045.4	-13.0
Communications	53.7	51.6	-3.9	57.9	49.1	-15.2	51.1	43.9	-14.2	275.1	47.9	-82.6	135.3	69.4	-48.7
Energy	128.7	111.0	-13.8	96.6	88.7	-8.2	139.1	114.2	-17.9	147.6	119.2	-19.2	200.2	188.5	-5.8
Agriculture and Mining	334.0	313.9	-6.0	300.0	291.4	-2.9	299.8	262.1	-12.6	292.3	323.2	10.6	486.6	414.1	-14.9
Finance, Industry and Other Activities	28.4	248.3	774.3	26.9	259.5	864.7	533.7	506.5	-5.1	29.1	1288.0	4326.1	293.4	1407.5	379.7
Social Sectors:	3371.4	3100.5	-8.0	3782.4	3296.5	-12.8	5200.6	3636.2	-30.1	5466.7	4813.1	-12.0	7662.4	7125.1	-7.0
Education	1315.2	1346.2	2.4	1432.4	1411.9	-1.4	2044.5	1504.6	-26.4	1914.4	1900.0	-0.8	2549.3	2617.1	2.7
Health and Environment	691.3	701.5	1.5	780.3	750.4	-3.8	1024.9	805.7	-21.4	966.7	1106.2	14.4	1285.7	1377.4	7.1
Housing and Urban Dev.	493.7	461.3	-6.6	640.6	534.4	-16.6	861.3	693.4	-19.5	1217.5	1024.9	-15.8	2170.8	2078.3	-4.3
Community Dev. & Social Services	871.2	591.5	-32.1	929.1	599.8	-35.4	1269.9	632.5	-50.2	1368.1	782.0	-42.8	1656.6	1052.3	-36.5
Total (incl. Interest)	7246.5	6986.1	-3.6	8877.1	8007.6	-9.8	11653.1	8796.5	-24.5	12726.2	11434.3	-10.2	16742.6	15430.4	-7.8
Total (excl. Interest)	6776.8	6167.9	-9.0	8012.8	6962.6	-13.1	10587.3	7668.2	-27.6	11906.5	10608.3	-10.9	15357.2	14069.9	-8.4

1/ Excludes capital amortization.

Source: World Bank staff estimates based on MIFIN data.

Table 13-B. Guatemala: Programmed and Actual Expenditures of the Central Government (Millions of Quetzales) /2

Sector	1994			1995			1996			1997			1998		
	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.	Budget Approved	Actual	% Diff.
Public Debt Management ¹	469.7	664.6	41.5	864.3	864.3	0.0	1065.8	1065.6	0.0	819.7	812.2	-0.9	1385.4	1360.5	-1.8
Internal	163.6	455.3	178.3	270.3	594.0	119.8	415.7	650.1	56.4	362.4	456.4	25.9	481.8	885.3	83.7
External	306.1	209.3	-31.6	594.0	270.3	-54.5	650.1	415.5	-36.1	457.3	355.8	-22.2	903.6	475.2	-47.4
Administration and Gen. Services	1060.4	1047.5	-1.2	1519.0	1383.0	-9.0	1799.5	1587.3	-11.8	2204.4	2036.8	-7.6	2708.9	2571.2	-5.1
Defense and Public Order	1014.5	1009.0	-0.5	1157.6	1132.1	-2.2	1138.3	1077.9	-5.3	1232.3	1230.5	-0.1	1519.3	1476.3	-2.8
Economic Infrastructure & Services:	1330.5	1055.8	-20.6	1553.8	1203.1	-22.6	2448.9	1493.8	-39.0	3003.1	2423.6	-19.3	3466.6	2976.0	-14.2
Roads and Transport	785.7	584.9	-25.6	1072.4	783.0	-27.0	1425.2	1089.7	-23.5	2259.0	1747.5	-22.6	2351.1	2076.6	-11.7
Communications	53.7	52.5	-2.2	57.9	50.0	-13.6	51.1	44.9	-12.1	275.1	274.9	-0.1	135.3	69.4	-48.7
Energy	128.7	111.0	-13.8	96.6	88.7	-8.2	139.1	114.2	-17.9	147.6	119.1	-19.3	200.2	188.5	-5.8
Agriculture and Mining	334.0	285.7	-14.5	300.0	255.7	-14.8	299.8	230.5	-23.1	292.3	254.3	-13.0	486.6	414.7	-14.8
Finance, Industry and Other Activities	28.4	21.7	-23.6	26.9	25.7	-4.5	533.7	14.5	-97.3	29.1	27.8	-4.5	293.4	226.8	-22.7
Social Sectors:	3371.4	3170.6	-6.0	3782.4	3391.7	-10.3	5200.6	3772.9	-27.5	5466.7	5015.0	-8.3	7662.4	7133.1	-6.9
Education	1315.2	1257.7	-4.4	1432.4	1304.2	-9.0	2044.5	1405.0	-31.3	1914.4	1781.6	-6.9	2549.3	2448.7	-3.9
Health and Environment	691.3	664.6	-3.9	780.3	682.1	-12.6	1024.9	642.7	-37.3	966.7	898.9	-7.0	1285.7	1177.9	-8.4
Housing and Urban Dev.	493.7	485.9	-1.6	640.6	575.0	-10.2	861.3	778.7	-9.6	1217.5	1121.6	-7.9	2170.8	1889.6	-13.0
Community Dev. & Social Services	871.2	762.4	-12.5	929.1	830.4	-10.6	1269.9	946.5	-25.5	1368.1	1212.9	-11.3	1656.6	1616.9	-2.4
Total (incl. Interest)	7246.5	6947.5	-4.1	8877.1	7974.2	-10.2	11653.1	8997.5	-22.8	12726.2	11518.1	-9.5	16742.6	15517.1	-7.3
Total (excl. Interest)	6776.8	6282.9	-7.3	8012.8	7109.9	-11.3	10587.3	7931.9	-25.1	11906.5	10705.9	-10.1	15357.2	14156.6	-7.8

1/ Excludes capital amortization.

Sources: Dirección de Análisis Fiscal, Ministry of Finance.

2/ This new table was included per request of the Ministry of Finance and is only partly consistent with the rest of this Statistical Appendix.

Table 14. Guatemala: Bilateral External Grants, 1998*
(US\$ Thousands)

Donor Countries	Outstanding Balance*		Flows	1998		Mitch (% of total)
	Dec./97	Dec./98		Mitch	Total	
TOTAL	76,822	143,120	46,513	19,214	65,727	29.2%
Germany	-	4,773	3,900	873	4,773	18.3%
Algeria	-	100	50	50	100	50.0%
Argentina	-	3	3	-	3	0.0%
Barbados	-	3	-	3	3	100.0%
Canada	3,194	3,600	406	0	406	0.0%
Santiago de Compostela Community	-	771	700	71	771	9.2%
Korea	-	160	80	80	160	50.0%
IBERDROLA Spain	-	400	200	200	400	50.0%
United States	41,457	55,737	7,043	7,237	14,280	50.7%
Venezuela's Social Investment Fund	-	9,720	9,720	-	9,720	0.0%
France	-	9,345	4,800	4,545	9,345	48.6%
Italy	1,670	4,300	1,030	1,600	2,630	60.8%
Japan	28,845	36,863	7,764	254	8,018	3.2%
Mexico	-	3,000	1,500	1,500	3,000	50.0%
Norway	1,500	8,100	6,600	-	6,600	0.0%
Poland	-	25	10	15	25	60.0%
Andorra's Principality	-	14	7	7	14	50.0%
Galicia's Autonomous Province	-	185	90	95	185	51.4%
United Kingdom	-	1,100	1,100	-	1,100	0.0%
Malta	-	227	110	117	227	51.5%
Switzerland	156	1,593	1,400	37	1,437	2.6%
Taiwan	-	2,530	-	2,530	2,530	100.0%

* Does not include China, Denmark, Spain, The Netherlands and Sweden because of inconsistencies in the reports.

Data are underestimated due to underreporting by bilateral agencies

Source: SEGEPLAN Reports.

Table 15. Guatemala: Financing of Public Capital Expenditures, 1996-97
(Millions of Quetzales)

	1996							1997						
	Total Investment	Local Financing	External Financing				Counterpart	Total Investment	Local Financing	External Financing				Counterpart
			Total	Bilateral	Multilateral	Donations				Total	Bilateral	Multilateral	Donations	
TOTAL	4484.5	2913.7	775.0	15.3	570.2	84.6	795.8	6044.6	4624.7	887.0	275.7	532.5	56.8	532.8
CENTRAL GOVERNMENT	2479.6	1757.4	670.1	15.3	570.2	84.6	52.1	4355.8	3423.6	864.9	275.7	532.5	56.8	67.2
Administration & General Services	96.4	34.8	44.4	0.0	35.5	8.9	17.2	142.6	118.8	17.2	17.2	0.0	0.0	6.6
Defense and Public Order	73.7	73.7	0.0	0.0	0.0	0.0	0.0	132.1	132.1	0.0	0.0	0.0	0.0	0.0
Economic Infrastructure & Services	1212.9	888.5	313.4	14.7	278.9	19.8	11.0	2412.8	1888.2	513.1	85.5	409.5	18.2	11.5
Roads and Transport	996.2	759.8	232.9	14.7	218.2	0.0	3.5	1662.4	1201.3	454.3	72.5	375.4	6.5	6.8
Communications	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	54.9	54.7	0.0	0.0	0.0	0.0	0.2	115.3	106.3	9.0	9.0	0.0	0.0	0.0
Agriculture and Mining	157.8	72.0	78.5	0.0	58.7	19.8	7.3	172.2	117.8	49.8	4.0	34.1	11.7	4.6
Finance, Industry and Others	4.0	2.0	2.0	0.0	2.0	0.0	0.0	462.9	462.9	0.0	0.0	0.0	0.0	0.0
Social Sectors	1096.6	760.4	312.3	0.6	255.8	55.9	23.9	1668.3	1284.5	334.6	173.0	123.0	38.6	49.1
Education, Science and Culture	163.3	99.8	63.5	0.0	63.5	0.0	0.0	267.8	146.9	120.9	64.4	53.7	2.8	0.0
Health	246.1	18.4	227.7	0.6	171.2	55.9	0.0	390.8	319.3	71.5	25.9	27.5	18.1	0.0
Housing and Urban Development	684.2	639.2	21.1	0.0	21.1	0.0	23.9	1009.7	818.4	142.2	82.7	41.9	17.6	49.1
Community Dev. & Social Services	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NF PUBLIC ENTERPRISES	828.6	0.0	84.9	0.0	0.0	0.0	743.7	487.7	0.0	22.1	0.0	0.0	0.0	465.6
GUATEL	512.3	0.0	52.0	n.a.	n.a.	n.a.	460.3	352.4	0.0	10.1	n.a.	n.a.	n.a.	342.3
INDE	155.3	0.0	9.5	n.a.	n.a.	n.a.	145.8	103.4	0.0	12.0	n.a.	n.a.	n.a.	91.4
EMPAGUA	93.1	0.0	23.4	n.a.	n.a.	n.a.	69.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Puertos Quetzal & Santo Tomas	64.9	0.0	0.0	0.0	0.0	0.0	64.9	22.0	0.0	0.0	0.0	0.0	0.0	22.0
Others	3.0	0.0	0.0	0.0	0.0	0.0	3.0	9.9	0.0	0.0	0.0	0.0	0.0	9.9
REST OF GENERAL GOVERNMENT	1176.3	1156.3	20.0	0.0	0.0	0.0	0.0	1201.1	1201.1	0.0	0.0	0.0	0.0	0.0
IGSS	264.6	264.6	0.0	0.0	0.0	0.0	0.0	53.8	53.8	0.0	0.0	0.0	0.0	0.0
INTECAP	43.1	43.1	0.0	0.0	0.0	0.0	0.0	17.8	17.8	0.0	0.0	0.0	0.0	0.0
IRTRA	80.6	80.6	0.0	0.0	0.0	0.0	0.0	67.7	67.7	0.0	0.0	0.0	0.0	0.0
University of San Carlos	24.0	24.0	0.0	0.0	0.0	0.0	0.0	22.9	22.9	0.0	0.0	0.0	0.0	0.0
Other decentralized	112.0	112.0	0.0	0.0	0.0	0.0	0.0	28.9	28.9	0.0	0.0	0.0	0.0	0.0
Local governments	652.0	632.0	20.0	n.a.	n.a.	n.a.	0.0	1010.0	1010.0	0.0	n.a.	n.a.	n.a.	0.0

Source: Ministry of Finance

Table 16. Guatemala: Public Fixed Investment (Millions of Quetzales) /1

	1995 (actual)	1996 (actual)	1997 (actual)	1998 (actual)	1999 (budget)	2000 (budget)
TOTAL	2240.3	2808.1	4136.1	5923.7	5482.4	6677.7
CÉNTRAL GOVERNMENT	1109.1	1292.5	2447.3	4106.3	5482.4	6677.7
Presidency of the Republic	419.9	363.1	875.3	1650.9	3296.9	4054.0
<i>o/w Social Funds</i>	294.1	351.2	789.4	1472.1	1403.8	1651.1
Fondo Nacional para la Paz (FONAPAZ)	92.8	146.1	176.0	591.7	411.1	383.3
Fondo de Inversion Social (FIS)	35.9	13.5	181.4	366.9	310.1	520.9
Fondo Nac. Conservación Naturaleza (FONACON)	12.6	0.0	0.0	0.0	3.0	3.0
Fondo Solidaridad Desarrollo Comunitario (FSDC)	138.0	174.1	412.1	491.2	642.6	705.0
Fondo Indigena Guatemalteco (FODIGUA)	14.8	17.5	19.9	22.3	30.0	31.9
Fondo Guatemalteco del Medio Ambiente	0.0	0.0	0.0	0.0	7.0	7.0
Foreign Relations	0.3	0.4	0.6	7.8	6.9	3.7
Police and Interior Affairs	36.8	0.6	117.3	82.3	109.6	84.3
National Defense	14.1	15.0	71.4	0.0	0.0	0.0
Public Finances	14.9	15.0	3.0	6.5	1.0	0.0
Education	39.9	18.9	74.4	147.7	181.3	13.8
<i>o/w Social Funds</i>	24.2	9.8	65.0	92.9	122.0	0.0
Fondo Educacion Rural Coparticipativa (FERC)	24.2	9.8	65.0	92.9	122.0	0.0
Health and Labor	27.2	80.3	69.5	3.7	3.0	5.3
Economy	11.9	6.4	73.0	246.4	9.3	299.3
<i>o/w Social Funds</i>	9.1	1.2	71.6	245.2	6.5	295.3
Fondo Guatemalteco pro Vivienda (FOGUAVI)	9.1	1.2	67.1	245.2	0.0	295.3
Fondo de Ciencia y Tecnologia (FONACYT)	0.0	0.0	4.5	0.0	6.5	0.0
Agriculture	73.7	57.7	84.3	154.1	283.7	327.3
<i>o/w Social Funds</i>	68.4	50.0	45.0	78.6	145.2	108.2
Fondo Nacional Agropecuario (FONAGRO)	41.4	12.5	7.2	21.1	39.3	0.0
Fondo Nacional de Tierras (FONATIERRA)	27.0	37.5	37.8	57.5	105.9	108.2
Communications, Transport and Public Works	468.9	731.4	1048.5	1767.6	1539.9	1819.3
Energy and Mining	0.4	0.6	18.3	5.8	7.2	9.0
Culture and Sports	0.1	3.0	10.3	32.8	43.5	61.6
Office of Procurement	1.1	0.1	1.4	0.9	0.0	0.0
NONFINANCIAL PUBLIC ENTERPRISES	471.3	728.0	487.7	547.6	n.a	n.a
GUATEL	261.0	379.2	352.4	395.7	n.a	n.a
INDE	78.0	82.7	103.4	116.1	n.a	n.a
EGGSA	70.9	147.0	n.a.	n.a.	n.a	n.a
EMPAGUA	21.3	65.0	0.0	n.a.	n.a	n.a
Puertos Quetzal & Santo Tomas	33.3	40.8	22.0	24.7	n.a	n.a
Others	6.8	13.3	9.9	11.1	n.a	n.a
REST OF GENERAL GOVERNMENT	659.9	787.6	1201.1	1269.7	n.a	n.a
IGSS	41.4	9.6	53.8	n.a	n.a	n.a
INTECAP	8.3	43.1	17.8	n.a	n.a	n.a
IRTRA	28.0	70.6	67.7	n.a	n.a	n.a
University of San Carlos	20.1	22.7	22.9	11.2	n.a	n.a
Other decentralized	39.8	62.6	28.9	n.a	n.a	n.a
Local governments	522.3	579.0	1010.0	1258.5	n.a	n.a
<i>o/w Transfers from Central Government²</i>	497.8	563.5	906.0	1215.9	n.a	n.a
<i>Memo: Total Social Funds</i>	395.8	412.2	971.0	1888.7	1677.6	2054.6

¹ Includes capital transfers to Social Funds. Does not include any budget expansion or cut.

Source: Ministry of Finance.

² Resources aimed for municipal works.

Table 17. Guatemala: Composition of Public Fixed Investment (%) /1

	1995 (actual)	1996 (actual)	1997 (actual)	1998 (actual)	1999 (budget)	2000 (budget)
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
CENTRAL GOVERNMENT	49.5	46.0	59.2	69.3	100.0	100.0
Presidency of the Republic	18.7	12.9	21.2	27.9	60.1	60.7
<i>o/w Social Funds</i>	13.1	12.5	19.1	24.9	25.6	24.7
Fondo Nacional para la Paz (FONAPAZ)	4.1	5.2	4.3	10.0	7.5	5.7
Fondo de Inversion Social (FIS)	1.6	0.5	4.4	6.2	5.7	7.8
Fondo Nac. Conservación Naturaleza (FONACON)	0.6	0.0	0.0	0.0	0.1	0.0
Fondo Solidaridad Desarrollo Comunitario (FSDC)	6.2	6.2	10.0	8.3	11.7	10.6
Fondo Indigena Guatemalteco (FODIGUA)	0.7	0.6	0.5	0.4	0.5	0.5
Fondo Guatemalteco del Medio Ambiente	0.0	0.0	0.0	0.0	0.1	0.1
Foreign Relations	0.0	0.0	0.0	0.1	0.1	0.1
Police Administration	1.6	0.0	2.8	1.4	2.0	1.3
Defense	0.6	0.5	1.7	0.0	0.0	0.0
Public Finances	0.7	0.5	0.1	0.1	0.0	0.0
Education	1.8	0.7	1.8	2.5	3.3	0.2
<i>o/w Social Funds</i>	1.1	0.3	1.6	1.6	2.2	0.0
Fondo Educacion Rural Coparticipativa (FERC)	1.1	0.3	1.6	1.6	2.2	0.0
Health and Labor	1.2	2.9	1.7	0.1	0.1	0.1
Economy	0.5	0.2	1.8	4.2	0.2	4.5
<i>o/w Social Funds</i>	0.4	0.0	1.7	4.1	0.1	4.4
Fondo Guatemalteco pro Vivienda (FOGUAVI)	0.4	0.0	1.6	4.1	0.0	4.4
Fondo de Ciencia y Tecnologia (FONACYT)	0.0	0.0	0.1	0.0	0.1	0.0
Agriculture	3.3	2.1	2.0	2.6	5.2	4.9
<i>o/w Social Funds</i>	3.1	1.8	1.1	1.3	2.6	1.6
Fondo Nacional Agropecuario (FONAGRO)	1.8	0.4	0.2	0.4	0.7	0.0
Fondo Nacional de Tierras (FONATIERRA)	1.2	1.3	0.9	1.0	1.9	1.6
Communications, Transport and Public Works	20.9	26.0	25.3	29.8	28.1	27.2
Energy and Mining	0.0	0.0	0.4	0.1	0.1	0.1
Culture and Sports	0.0	0.1	0.3	0.6	0.8	0.9
Office of Procurement	0.0	0.0	0.0	0.0	0.0	0.0
NONFINANCIAL PUBLIC ENTERPRISES	21.0	25.9	11.8	9.2	n.a	n.a
GUATEL	11.6	13.5	8.5	6.7	n.a	n.a
INDE	3.5	2.9	2.5	2.0	n.a	n.a
EGGSA	3.2	5.2	n.a	n.a	n.a	n.a
EMPAGUA	1.0	2.3	0.0	n.a	n.a	n.a
Puertos Quetzal & Santo Tomas	1.5	1.5	0.5	0.4	n.a	n.a
Others	0.3	0.5	0.2	0.2	n.a	n.a
REST OF GENERAL GOVERNMENT	29.5	28.0	29.0	21.4	n.a	n.a
IGSS	1.8	0.3	1.3	n.a	n.a	n.a
INTECAP	0.4	1.5	0.4	n.a	n.a	n.a
IRTRA	1.2	2.5	1.6	n.a	n.a	n.a
University of San Carlos	0.9	0.8	0.6	0.2	n.a	n.a
Other decentralized	1.8	2.2	0.7	n.a	n.a	n.a
Local governments	23.3	20.6	24.4	21.2	n.a	n.a
<i>o/w Transfers from Central Government²</i>	22.2	20.1	21.9	20.5	n.a	n.a
<i>Memo: Total Social Funds</i>	17.7	14.7	23.5	31.9	30.6	30.8

¹ Includes all transfers to Social Funds. Does not include any budget expansion.

² Resources aimed for municipal works.

Table 18. Guatemala: Level of Public Fixed Investment (% of GDP) /1

	1995 (actual)	1996 (actual)	1997 (actual)	1998 (actual)	1999 (budget)	2000 (budget)
TOTAL	2.6	2.9	3.8	4.9	4.1	4.6
CENTRAL GOVERNMENT	1.3	1.4	2.3	3.4	4.1	4.6
Presidency of the Republic	0.5	0.4	0.8	1.4	2.5	2.8
o/w Social Funds	0.3	0.4	0.7	1.2	1.0	1.1
Fondo Nacional para la Paz (FONAPAZ)	0.1	0.2	0.2	0.5	0.3	0.3
Fondo de Inversion Social (FIS)	0.0	0.0	0.2	0.3	0.2	0.4
Fondo Nac. Conservación Naturaleza (FONACON)	0.0	0.0	0.0	0.0	0.0	0.0
Fondo Solidaridad Desarrollo Comunitario (FSDC)	0.2	0.2	0.4	0.4	0.5	0.5
Fondo Indígena Guatemalteco (FODIGUA)	0.0	0.0	0.0	0.0	0.0	0.0
Fondo Guatemalteco del Medio Ambiente	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Relations	0.0	0.0	0.0	0.0	0.0	0.0
Police and Interior Affairs	0.0	0.0	0.1	0.1	0.1	0.1
National Defense	0.0	0.0	0.1	0.0	0.0	0.0
Public Finances	0.0	0.0	0.0	0.0	0.0	0.0
Education	0.0	0.0	0.1	0.1	0.1	0.0
o/w Social Funds	0.0	0.0	0.1	0.1	0.1	0.0
Fondo Educacion Rural Coparticipativa (FERC)	0.0	0.0	0.1	0.1	0.1	0.0
Health and Labor	0.0	0.1	0.1	0.0	0.0	0.0
Economy	0.0	0.0	0.1	0.2	0.0	0.2
o/w Social Funds	0.0	0.0	0.1	0.2	0.0	0.2
Fondo Guatemalteco pro Vivienda (FOGUAVI)	0.0	0.0	0.1	0.2	0.0	0.2
Fondo de Ciencia y Tecnologia (FONACYT)	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	0.1	0.1	0.1	0.1	0.2	0.2
o/w Social Funds	0.1	0.1	0.0	0.1	0.1	0.1
Fondo Nacional Agropecuario (FONAGRO)	0.0	0.0	0.0	0.0	0.0	0.0
Fondo Nacional de Tierras (FONATIERRA)	0.0	0.0	0.0	0.0	0.1	0.1
Communications, Transport and Public Works	0.6	0.8	1.0	1.5	1.2	1.2
Energy and Mining	0.0	0.0	0.0	0.0	0.0	0.0
Culture and Sports	0.0	0.0	0.0	0.0	0.0	0.0
Office of Procurement	0.0	0.0	0.0	0.0	0.0	0.0
NONFINANCIAL PUBLIC ENTERPRISES	0.6	0.8	0.5	0.5	n.a	n.a
GUATEL	0.3	0.4	0.3	0.3	n.a	n.a
INDE	0.1	0.1	0.1	0.1	n.a	n.a
EGGSA	0.1	0.2	n.a	n.a	n.a	n.a
EMPAGUA	0.0	0.1	0.0	n.a	n.a	n.a
Puertos Quetzal & Santo Tomas	0.0	0.0	0.0	0.0	n.a	n.a
Others	0.0	0.0	0.0	0.0	n.a	n.a
REST OF GENERAL GOVERNMENT	0.8	0.8	1.1	1.0	n.a	n.a
IGSS	0.0	0.0	0.0	n.a	n.a	n.a
INTECAP	0.0	0.0	0.0	n.a	n.a	n.a
IRTRA	0.0	0.1	0.1	n.a	n.a	n.a
University of San Carlos	0.0	0.0	0.0	0.0	n.a	n.a
Other decentralized	0.0	0.1	0.0	n.a	n.a	n.a
Local governments	0.6	0.6	0.9	1.0	n.a	n.a
o/w Transfers from Central Government ²	0.6	0.6	0.8	1.0	n.a	n.a
<i>Memo: Total Social Funds</i>	0.5	0.4	0.9	1.6	1.3	1.4

¹ Includes all transfers to Social Funds. Does not include any budget expansion.

² Resources aimed for municipal works.

Source: Statistical Appendix, Table 16.

Table 19. Guatemala: Programmed and Effective Official Disbursements
(Millions of US\$)

Debtor/Creditor	1995			1996			1997			1998		
	Programmed	Effective	Disb. Rate	Programmed	Effective	Disb. Rate	Programmed	Effective	Disb. Rate	Programmed	Effective	Disb. Rate
TOTAL	300.7	118.7	39.5%	186.4	210.5	112.9%	281.9	323.6	114.8%	245.1	320.2	130.6%
Central Government	281.9	114.5	40.6%	186.4	198.4	106.4%	281.9	323.4	114.7%	245.1	320.2	130.6%
IDB	72.3	47.3	65.4%	45.7	38.9	85.2%	170.5	101.0	59.3%	134.0	125.6	93.7%
IBRD	72.0	14.5	20.1%	69.7	68.9	98.8%	17.2	16.5	95.8%	17.3	29.5	170.8%
BCIE	53.1	37.1	69.9%	41.2	34.0	82.6%	27.5	17.7	64.3%	38.5	112.4	291.9%
FIDA	5.1	2.7	52.9%	3.4	2.3	67.1%	2.9	2.7	90.4%	2.8	2.5	89.4%
OPEC	1.6	0.7	43.8%	1.1	0.7	62.8%	5.1	0.5	9.5%	10.0	2.6	26.4%
USAID	14.6	0.6	4.1%	0.5	17.3		0.0	0.0		0.0	0.0	
KFW	11.7	4.3	36.8%	9.8	19.5	199.7%	13.9	9.0	65.0%	20.8	3.5	16.7%
MCC	8.0	2.0	25.0%	0.0	0.2		0.0	0.2		0.0	0.0	
FIV - Venezuela	21.2	5.1	24.1%	2.8	12.0	428%	13.9	4.4	31.5%	4.1	1.9	47.4%
Govt. of Switzerland	2.3	0.2	8.7%	0.0	0.0		0.0	0.0		0.0	0.4	
Eximbank-China	20.0	0.0	0.0%	0.0	0.0		20.0	20.0	100.0%	0.0	40.0	
OECF-Japan	0.0	0.0		12.2	0.0	0.0%	10.8	1.4	13.2%	17.7	1.7	9.8%
Private Creditors (Bonds)	0.0	0.0		0.0	0.0		0.0	150.0		0.0	0.0	
USA Government	0.0	0.0		0.0	4.6	68.867	0.0	0.0		0.0	0.0	
Municipalidad de Guatemala	n.a.	n.a.	n.a.	0.0	4.7		0.0	0.0		0.0	0.0	
GUATEL	13.8	3.8	27.5%	0.0	7.5		0.0	0.1		0.0	0.0	
OECF-Japan	12.0	3.8	31.7%	0.0	7.5		0.0	0.1		0.0	0.0	
BCIE	1.8	0.0	0.0%	0.0	0.0		0.0	0.0		0.0	0.0	
EMPAGUA	5.0	0.4	8.0%	n.a.	n.a.		0.0	0.2		0.0	0.0	
OECF-Japan	5.0	0.4	8.0%	n.a.	n.a.		0.0	0.2		0.0	0.0	

Source: Ministry of Finance and Bank of Guatemala.

Table 20. Guatemala: Official Disbursements (US\$ mn) /1
(Millions of US\$)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bilaterals	42.8	96.3	31.8	61.6	74.5	59.1	41.3	53.6	48.7	64.2	35.6	50.2
Multilaterals	27.6	105.1	85.3	68.2	69.7	95.2	28.8	118.3	100.3	144.1	137.8	270.0
Private Creditors	16.4	12.8	43.8	28.1	18.4	36.7	13.5	104.1	61.8	0.0	150.3	0.0
Total Official	86.8	214.2	160.9	157.9	162.6	191.0	83.6	276.0	210.8	208.3	323.6	320.2

¹ Data includes disbursements to Bank of Guatemala.

Source: World Bank on data provided by the Ministry of Finance and Bank of Guatemala.

Table 21. Guatemala: Outstanding Public External Debt
(Millions of US\$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 ^{ei}
Total	2402.4	2345.1	2281.2	2248.1	2405.9	2347.7	2515.3	2680.9	2774.6
Nonfinancial public sector	1309.2	1315.1	1341.6	1375.3	1627.1	1609.6	1652.9	1926.0	2037.6
Multilateral	824.1	789.2	763.1	713.4	784.6	807.0	919.1	999.7	1226.3
IDB	516.7	508.3	497.7	477.9	558.6	570.8	606.0	666.9	777.4
World Bank	202.0	174.5	172.3	146.3	140.6	123.9	180.9	197.2	203.1
BCIE	103.1	103.6	86.6	81.5	75.1	100.5	119.7	116.6	227.9
IFAD	0.7	1.0	3.0	4.2	6.0	7.8	9.1	12.0	13.8
OPEC	1.6	1.8	3.5	3.5	4.3	4.0	3.4	7.1	4.1
Bilateral	406.2	437.8	475.4	521.0	554.7	603.0	572.4	524.8	555.9
Commercial Banks	23.0	21.5	31.9	40.6	60.8	59.6	51.0	49.0	49.6
Bonded debt	0.0	0.0	0.0	40.0	40.3	38.3	39.4	189.4	150.0
Short-term	55.9	66.6	71.2	60.3	186.7	101.7	71.0	163.1	55.8
CORFINA	350.3	373.0	387.2	402.1	421.4	437.1	592.4	546.1	581.2
o/w Banco Exterior de Espana	203.3	203.3	188.7	370.9	370.9	370.9	506.4	540.2	576.3
Bank of Guatemala	742.9	657.0	552.4	470.7	357.4	301.0	270.0	208.7	155.9
MLT debt	474.7	390.4	394.3	368.6	298.0	256.9	239.7	166.0	140.7
Short-term	268.2	266.6	158.1	102.1	59.4	44.1	30.3	42.8	15.2
<i>Memo</i> : Current GDP	6843.4	9379.1	10128.6	11095.5	13219.3	14336.1	15913.1	17455.2	17687.5
Official external debt/GDP (%)	35.1	25.0	22.5	20.3	18.2	16.4	15.8	15.4	15.7

Source: IMF, Bank of Guatemala and Ministry of Finance.

^{ei} 1998 data are preliminary estimates

Table 22. Guatemala: Central Government Outstanding Public Domestic Debt
(Millions of Quetzales)

	Balance 31/12/90	Balance 31/12/91	Balance 31/12/92	Balance 31/12/93	Balance 31/12/94	Balance 31/12/95	Balance 31/12/96	Balance 31/12/97	Balance 31/12/98
1. FLOATING DEBT	580.6	522.3	696.6	1153.1	1075.8	1271.0	661.5	304.1	126.4
<i>PROGRAMA DE FUNCIONAMIENTO</i>	345.0	280.3	432.9	662.1	577.2	530.1	253.1	..	..
Organismo Legislativo	3.2	3.0	5.5	20.0	6.0	4.4	..	..	..
Presidencia de la Republica	58.9	18.7	46.2	57.6	28.0	29.5	..	..	..
Ministerio de Relaciones Exteriores	10.3	6.5	7.8	16.0	28.4	19.8	..	..	..
Ministerio de Gobernacion	11.4	9.1	20.7	36.9	18.8	16.8	..	..	..
Ministerio de la Defensa Nacional	69.3	47.6	55.7	47.6	62.0	24.1	..	..	..
Ministerio de Finanzas Publicas	53.5	33.0	96.8	145.1	87.1	82.9	..	..	..
Ministerio de Educacion	29.4	30.9	32.1	53.1	96.7	119.7	..	..	..
Ministerio de Salud Publica y A.S.	74.9	76.6	110.4	183.0	164.6	175.6	..	..	..
Ministerio de Trabajo y Prev Soc	0.6	1.0	2.0	7.3	3.2	2.2	..	..	..
Ministerio de Economia	2.2	0.7	8.9	14.1	4.7	4.6	..	..	..
Ministerio de Agricultura Ganad. Alim.	14.2	13.1	16.3	38.5	38.2	19.6	..	..	..
Ministerio de Comunicaciones T. y O.P.	8.3	14.2	19.6	23.1	22.5	18.0	..	..	..
Ministerio de Energia y Minas	0.5	19.0	1.0	5.6	2.6	1.2	..	..	..
Ministerio de Asuntos Especificos	0.5	0.0	0.0	0.0	0.0	0.0	..	..	..
Ministerio de Cultura y Deportes	2.8	2.6	5.3	6.3	6.6	7.8	..	..	..
Ministerio de Desarrollo Urbano y R.	4.3	1.0	1.4	1.4	1.4	0.0	..	..	..
Ministerio Publico	0.1	0.8	1.1	3.5	0.9	0.0	..	..	..
Procuraduria Gral de la Nacion	0.0	0.0	0.0	0.0	0.9	0.2	..	..	..
Contraloria General de Cuentas	0.6	2.5	2.1	3.0	4.6	3.7	..	..	..
<i>PROGRAMA DE INVERSION</i>	235.6	242.0	263.7	491.0	498.6	740.9	408.5	..	..
Presidencia de la Republica	6.5	1.4	2.9	51.2	64.3	106.8	..	..	..
Ministerio de Relaciones Exteriores	0.1	0.5	1.5	2.5	2.6	0.5	..	..	..
Ministerio de Gobernacion	1.2	0.0	0.0	2.0	2.5	56.1	..	..	..
Ministerio de la Defensa Nacional	11.4	45.6	1.4	4.9	3.2	2.7	..	..	..
Ministerio de Finanzas Publicas	123.5	43.5	62.8	216.6	193.3	261.4	..	..	..
Ministerio de Educacion	2.1	20.9	10.2	8.1	35.3	25.7	..	..	..
Ministerio de Salud Publica y A.S.	3.4	7.5	11.2	25.6	21.9	17.2	..	..	..
Ministerio de Trabajo y Prev Soc	0.0	0.4	0.1	0.0	1.5	1.7	..	..	..
Ministerio de Economia	14.3	4.0	0.0	0.0	7.8	19.5	..	..	..
Ministerio de Agricultura Ganad. Alim.	11.8	26.7	13.3	14.5	23.7	59.6	..	..	..
Ministerio de Comunicaciones T. y O.P.	50.9	83.2	154.3	139.2	133.7	167.7	..	..	..
Ministerio de Energia y Minas	6.7	2.3	0.4	0.4	4.5	0.9	..	..	..
Ministerio de Cultura y Deportes	1.9	4.0	3.4	3.6	2.0	20.6	..	..	..
Ministerio de Desarrollo Urbano y R.	1.8	2.0	2.2	16.3	0.1	0.0	..	..	..
Contraloria General de Cuentas	0.0	0.0	0.0	6.1	2.2	0.5	..	..	..
2. BONDED DEBT	3408.7	3712.6	3684.5	4153.5	4854.7	4485.2	5095.0	5864.9	6259.4
3. CARRYOVER DEBT	2.2	88.1	51.6	32.2	200.1	241.6	0.0	0.0	0.0
4. CIRCULATING SECURITIES	0.1	0.2	0.4	0.6	1.0	1.2	1.1	1.1	0.8
5. OTHERS	1.5	1.8	6.2	6.1	7.9	22.3	0.2	0.0	0.0
TOTAL DOMESTIC PUBLIC DEBT	3993.1	4325.0	4439.3	5345.5	6139.5	6021.3	5757.8	6170.1	6386.6
(as % of GDP)	11.6	9.1	8.2	8.3	8.2	7.1	6.0	5.7	5.3
Memo: Current GDP	34316.9	47302.3	53985.4	64243.2	74669.2	85156.7	95478.6	107873.4	121127.3

Source: Ministry of Finance and Bank of Guatemala. 1998 data are preliminary estimates.

Table 23. Guatemala: Central Government Bonded Debt Maturities
(Millions of Quetzales, end of period balances)

	1994	1995	1996	1997	1998
1 month	763.4	483.5	289.7	405.8	383.7
2 months	23.2	641.8	373.0	447.6	214.4
3 months	107.5	245.4	396.0	398.9	329.3
4 months	67.0	307.1	271.0	521.9	189.4
5 months	92.7	101.3	154.0	414.7	99.4
6 months	227.2	149.9	235.6	537.8	199.0
7 months	158.0	245.9	457.0	372.0	379.1
8 months	103.6	113.5	314.1	518.1	263.0
9 months	208.8	100.4	99.8	203.2	224.1
10 months	366.4	140.8	134.7	370.0	110.1
11 months	40.8	20.7	113.9	88.2	69.4
12 months	141.8	69.0	130.8	228.8	147.0
13 to 24 months	274.9	179.7	1254.0	850.0	1139.1
25 months +	471.0	330.7	86.8	426.6	2512.7
Subtotal	3046.3	3129.7	4310.4	5783.6	6259.6
Bank of Guatemala	1808.4	1355.5	782	78.4	78.0
Total	4854.7	4485.2	5092.4	5862.0	6337.6

Acumulated Percentual Structure

1 month	25.1	15.4	6.7	7.0	6.1
2 months	25.8	36.0	15.4	14.8	9.6
3 months	29.4	43.8	24.6	21.7	14.8
4 months	31.5	53.6	30.8	30.7	17.8
5 months	34.6	56.8	34.4	37.8	19.4
6 months	42.1	61.6	39.9	47.1	22.6
7 months	47.2	69.5	50.5	53.6	28.7
8 months	50.6	73.1	57.8	62.5	32.9
9 months	57.5	76.3	60.1	66.0	36.4
10 months	69.5	80.8	63.2	72.4	38.2
11 months	70.9	81.5	65.9	74.0	39.3
12 months	75.5	83.7	68.9	77.9	41.7
2 years	84.5	89.4	98.0	92.6	59.9
3 years +	100.0	100.0	100.0	100.0	100.0
Subtotal	62.7	69.8	84.6	98.7	98.8
Bank of Guatemala	37.3	30.2	15.4	1.3	1.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance

**Table 24-A. Guatemala: Savings on Interest Payments from Public Debt Restructuring,
Proposals' Results Comparison**

RESULTS	1999	2000	2001	2002	2003	SUM
A. Interest Payments Savings	97	204.0	183.6	163.2	127.0	774.8
1. Proposal 1	0.1%	0.1%	0.1%	0.1%	0.1%	
(as % of GDP)	185.8	340.0	306.0	272.0	235.8	1339.6
2. Proposal 2	0.1%	0.2%	0.2%	0.2%	0.1%	
(as % of GDP)						
B. Intervention Costs						
1. Proposal 1	99	152.4	97.8	33.4	5.1	387.7
(as % of GDP)	0.1%	0.1%	0.1%	0.0%	0.0%	
2. Proposal 2	177.4	254.5	155.9	51.2	7.3	646.3
(as % of GDP)	0.1%	0.2%	0.1%	0.0%	0.0%	
C. Net Effect						
1. Proposal 1	-2.0	51.6	85.8	129.8	121.8	386.9
(as % of GDP)	0.0%	0.0%	0.1%	0.1%	0.1%	
2. Proposal 2	8.4	85.5	150.1	220.8	228.5	693.2
(as % of GDP)	0.0%	0.1%	0.1%	0.1%	0.1%	

Source: Statistical Annex Table 24-B, Funes 99.

Table 24-B. Guatemala: Savings on Interest Payments from Public Debt Restructuring (millions of quetzales)

Scenarios	Description	1999		2000		2001		2002		2003		1999-2003	
		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
Passive: Without using privatization proceeds													
	Balance January 1 (Source: Min Finanzas)		6,179.1		5,617.4		5,018.2		4,356.7		3,623.8		
	Debt Service (idem, only principal for 1999)	1,174.0	561.7	1,123.5	599.2	903.3	661.5	697.1	732.9	543.6	808.4	4,441.4	3,363.8
	(as % of GDP)	0.9%	0.4%	0.8%	0.4%	0.5%	0.4%	0.4%	0.4%	0.3%	0.4%		
	Balance as of December 31		5,617.4		5,018.2		4,356.7		3,623.8		2,815.3		
Option No. 1: US\$150 millions from privatization proceeds													
	Effective as of January 30, 1999		\$ 75 millions										
	as of July 30, 1999		\$ 75 millions										
	Balance as of January 1		6,179.1		4,597.4		3,998.2		3,336.7		2,603.8		6,179.1
	Debt Service	97.8	46.8	919.5	599.2	719.7	661.5	533.9	732.9	416.6	808.4	2,687.5	2,848.9
	Use of privatization proceeds (January 30; \$75 millions)		510.0		-		-		-		-		510.0
	New balance		5,622.3		3,998.2		3,336.7		2,603.8		1,795.3		2,820.2
	Debt Service	979.2	514.9	-	-	-	-	-	-	-	-	979.2	514.9
	Use of privatization proceeds (July 30; \$75 millions)		510.0		-		-		-		-		510.0
	Total Service, including privatization effect	1,077.1	1,581.7	919.5	599.2	719.7	661.5	533.9	732.9	416.6	808.4	3,666.7	4,383.8
	Balance as of December 31		4,597.4		3,998.2		3,336.7		2,603.8		1,795.3		1,795.3
	Total Service as % of GDP	0.8%	1.2%	0.6%	0.4%	0.4%	0.4%	0.3%	0.4%	0.2%	0.4%		
	Savings per year -millions of Quetzales	97.0		204.0		183.6		163.2		127.0		774.7	
	as % of GDP	0.1%		0.1%		0.1%		0.1%		0.1%			
Option No. 2: US\$250 millions from privatization proceeds													
	Effective as of January 30, 1999		\$150 millions										
	as of July 30, 1999		\$150 millions										
	Balance as of January 1		6,179.1		3,917.4		3,318.2		2,656.7		1,923.8		6,179.1
	Debt Service	97.8	46.8	783.5	599.2	597.3	661.5	425.1	732.9	307.8	808.4	2,211.5	2,848.9
	Use of privatization proceeds (January 30; \$150 millions)		1,020.0		-		-		-		-		1,020.0
	New balance		5,112.3		3,318.2		2,656.7		1,923.8		1,115.3		2,310.2
	Debt Service	890.4	514.9	-	-	-	-	-	-	-	-	890.4	514.9
	Use of privatization proceeds (July 30; \$150 millions)		680.0		-		-		-		-		680.0
	Total Service, including privatization effect	988.2	2,261.7	783.5	599.2	597.3	661.5	425.1	732.9	307.8	808.4	3,101.9	5,063.8
	Balance as of December 31		3,917.4		3,318.2		2,656.7		1,923.8		1,115.3		1,115.3
	Total Service as % of GDP	0.7%	1.7%	0.5%	0.4%	0.4%	0.4%	0.2%	0.4%	0.2%	0.4%		
	Savings per year -millions of Quetzales	185.8		340.0		306.0		272.0		235.8		1,339.6	
	as % of GDP	0.1%		0.2%		0.2%		0.2%		0.1%			

Source: World Bank staff estimates and Funes, 1999.

Assumptions

Variables	1999	2000	2001	2002	2003
A. Nominal exchange rate (average)	6.80	7.00	7.20	7.41	7.62
B. Nominal GDP in quetzales	134,846	149,797	165,376	183,237	202,110
C. Banking system lending interest rate	19.0%	20.0%	18.0%	16.0%	15.0%
D. For both scenarios, normal amortization is kept constant as % of GDP.					

E. Central Government costs from internal debt extraordinary payments:

Scenarios	1999	2000	2001	2002	2003	Sum
A. Option No. 1						1999 / 2003
- OMO's average interest rate (Source: IMF)	14.6%	20.2%	18.2%	16.1%	15.1%	
- Interest payments from OMO's -millions of Quetzales 1/	99.0	152.4	97.8	33.4	5.1	387.8
(as % of GDP)	0.1%	0.1%	0.1%	0.0%	0.0%	
B. Option No. 2						
- OMO's average interest rate (Source: IMF)	14.6%	20.2%	18.2%	16.1%	15.1%	
- Interest payments from OMO's -millions of Quetzales 1/	177.4	254.5	155.9	51.2	7.3	646.3
(as % of GDP)	0.1%	0.2%	0.1%	0.0%	0.0%	
Nominal net effect = [Budgetary Savings] - [intervention's monetary cost]						
A. Option No. 1 - millions of Quetzales	(2.0)	51.6	85.8	129.8	121.8	386.9
(as % of GDP)	0.0%	0.0%	0.1%	0.1%	0.1%	
B. Option No. 2 - millions of Quetzales	8.4	85.5	150.1	220.8	228.5	693.2
(as % of GDP)	0.0%	0.1%	0.1%	0.1%	0.1%	

1/ BoG's Open Market Operations (OMO's) have one year maturity terms and are gradually reduced by 75%, 50% and 25% from the original payment.

Table 25. Guatemala: Social Funds Investment in 1997 and 1998, by Sector (Millions of Quetzales)

SOCIAL FUND	TOTAL	Administration and General Services	Defense and Public Order	Housing and Urban Development	Agriculture and Mining	Roads and Transport	Energy	Health & Social Services	Education, Science and Culture	Finance, Industry and Others
1998	1,888.7	62.9	0.5	422.8	331.5	223.6	180.1	284.4	383.0	-
Fondo Guatemalteco pro Vivienda (FOGUA VI)	245.2	-	-	-	245.2	-	-	-	-	-
Fondo Nacional para la Paz (FONAPAZ)	591.7	6.2	-	422.8	-	59.5	-	45.6	57.6	-
Fondo de Inversion Social (FIS)	366.9	34.5	-	-	5.1	30.5	30.8	88.1	177.9	-
Fondo Solidaridad Desarrollo Comunitario (FSDC)	491.2	-	0.5	-	2.7	133.5	149.2	150.7	54.6	-
Fondo Educ. Rural Coparticipativa (PRONADE)	92.9	-	-	-	-	-	-	-	92.9	-
Fondo Nacional Agropecuario (FONAGRO)	21.1	-	-	-	21.1	-	-	-	-	-
Fondo Indigena Guatemalteco (FODIGUA)	22.3	22.3	-	-	-	-	-	-	-	-
Fondo Nacional de Tierras (FONATIERRA)	57.5	-	-	-	57.5	-	-	-	-	-
Fondo de Ciencia y Tecnologia (FONACYT)	-	-	-	-	-	-	-	-	-	-
1997	971.0	35.6	7.2	103.3	71.6	215.8	116.9	181.5	233.5	5.6
Fondo Guatemalteco pro Vivienda (FOGUA VI)	67.1	-	-	67.1	-	-	-	-	-	-
Fondo Nacional para la Paz (FONAPAZ)	176.0	35.6	-	22.6	22.5	22.6	-	50.1	22.6	-
Fondo de Inversion Social (FIS)	181.4	-	-	-	2.8	4.6	37.8	37.1	93.5	5.6
Fondo Solidaridad Desarrollo Comunitario (FSDC)	412.1	-	7.2	13.6	1.3	188.6	79.1	94.3	28.0	-
Fondo Educ. Rural Coparticipativa (PRONADE)	65.0	-	-	-	-	-	-	-	65.0	-
Fondo Nacional Agropecuario (FONAGRO)	7.2	-	-	-	7.2	-	-	-	-	-
Fondo Indigena Guatemalteco (FODIGUA)	19.9	-	-	-	-	-	-	-	19.9	-
Fondo Nacional de Tierras (FONATIERRA)	37.8	-	-	-	37.8	-	-	-	-	-
Fondo de Ciencia y Tecnologia (FONACYT)	4.5	-	-	-	-	-	-	-	4.5	-

Source: Direccion Tecnica de Presupuesto, Ministry of Finance

Table 26. Guatemala: Regression estimates of the Social Investment Fund (FIS) and Municipal focalization on Poverty for 1997

Objectives	Investment * (in MM QZ\$)	As % of Total	Correlation Coefficient	Determination Coefficient	t Statistic Independent Variable	t Statistic 5% significance	# of observations
<i>1. FIS Investment by Department</i>							
1.1 FIS Investment versus NBI by department	136.30	100%	61.60%	37.94%	3.5	2.09	22
1.2 FIS investment in water projects versus Water NBI	6.03	4.42%	22.79%	5.19%	1.05	2.09	22
1.3 FIS investment in sanitation projects versus NBI of sanitary services	10.66	7.82%	-19.67%	3.87%	-0.9	2.09	22
1.4 FIS investment in education projects versus educational NBI	82.46	60.50%	69.17%	47.84%	4.28	2.09	22
<i>2. FIS Investment by Municipality</i>							
2.1 FIS Investment versus NBI by municipality	136.30	100%	21.66%	53.54%	3.82	1.96	298
2.2 FIS investment in water projects versus Water NBI	6.03	4.42%	12.30%	1.51%	2.13	1.96	298
2.3 FIS investment in sanitation projects versus NBI of sanitary services	10.66	7.82%	-7.55%	0.57%	-1.3	1.96	298
2.4 FIS investment in education projects versus educational NBI	82.46	60.50%	11.71%	1.37%	2.03	1.96	298
<i>3. Municipal Capital Expenditure (289 municipalities)</i>							
3.1 Municipal Investment versus municipal NBI	902.08	100%	-17.26%	2.98%	-2.97	1.96	289

* Includes only investment from municipalities where information was obtained.

Source: Chocano 1999b

Table 27. Guatemala: Total Expenditure of Central Government by Region (Millions of Quetzales)

Region	1995 Actual	1996 Actual	1997 Actual	1998 ² Actual	1999 ² Budget	2000 ² Budget
I- Metropolitan	4567.0	2965.6	2906.4	4262.2	4315.0	5375.0
II- North	208.4	199.0	278.9	415.0	467.5	673.5
III- North-East	356.2	388.6	630.1	738.0	647.1	855.0
IV- South-East	267.3	335.3	418.3	517.3	482.7	616.4
V- Central	365.3	498.9	525.3	622.9	610.7	787.2
VI- South-West	616.8	795.2	1101.2	1198.6	1125.5	1518.4
VII- North-West	382.3	352.6	457.4	626.4	780.6	976.2
VIII- El Petén	199.4	225.9	216.5	431.6	425.4	406.0
IX- Mutiregional	-	1907.0	4074.2	5191.1	6550.6	7843.1
Foreign Services	-	-	-	66.8	59.5	87.3
Public Debt Management ¹	1839.3	2266.9	1629.9	1704.7	1815.4	2680.8
Internal	594.0	650.1	456.4	885.3	707.8	1089.1
External	451.0	478.2	369.6	475.2	807.5	1088.7
BOG losses	794.3	1138.6	803.9	344.2	300.0	503.0
Total	8801.9	9935.1	12238.2	15774.6	17280.1	21818.9

¹ Excludes capital amortization.

² In 1997 a new system for government financial management was introduced. To ensure comparability, the Staff reclassified figures for 1998 and 1999 that are compatible with the old series. IMF and IFMS staff are working together to reclassified historical data according to the new budget classification. Does not include any budget expansion.

Table 28. Guatemala: Total Expenditure of Central Government by Region (as % of Total)

Region	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Budget	2000 Budget
I- Metropolitan	51.9	29.8	23.7	27.0	25.0	24.6
II- North	2.4	2.0	2.3	2.6	2.7	3.1
III- North-East	4.0	3.9	5.1	4.7	3.7	3.9
IV- South-East	3.0	3.4	3.4	3.3	2.8	2.8
V- Central	4.1	5.0	4.3	3.9	3.5	3.6
VI- South-West	7.0	8.0	9.0	7.6	6.5	7.0
VII- North-East	4.3	3.5	3.7	4.0	4.5	4.5
VIII- El Petén	2.3	2.3	1.8	2.7	2.5	1.9
IX- Mutiregional	-	19.2	33.3	32.9	37.9	35.9
Foreign Services	-	-	-	0.4	0.3	0.4
Public Debt Management ¹	20.9	22.8	13.3	10.8	10.5	12.3
Internal	6.7	6.5	3.7	5.6	4.1	5.0
External	5.1	4.8	3.0	3.0	4.7	5.0
BOG losses	9.0	11.5	6.6	2.2	1.7	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Ministry of Finance and Bank of Guatemala

Table 29. Guatemala: 1998 Mitch Reconstruction, 1999 Budget Allocations and Actual Transfers
(Millions of Quetzales)

Entity	1998 Actual	1999 Budget	1998-99 Total	Actual Transfers*
Autoridad Rescate Amatitlán	5.0	-	5.0	18.0
CONRED	8.2	-	8.2	-
FIS	32.2	99.5	131.7	131.5
FONAPAZ	10.0	57.5	67.5	56.1
INFOM	-	160.0	160.0	-
MAGA	34.7	45.0	79.7	26.6
MCTOPV	12.0	20.0	32.0	160.0
Ministry of Culture and Sports	0.7	1.0	1.7	1.8
MINEDUC	40.0	25.7	65.7	65.6
MSPAS	13.4	28.0	41.4	25.7
Ministry of Defense	19.3	-	19.3	-
Ministry of Labor	0.9	6.5	7.4	-
Social Welfare Secretariat	0.7	-	0.7	-
Executive Coordination Secretariat	10.9	89.0	99.9	150.0
SINAFIP	-	-	-	2.0
TOTAL	188.1	532.2	720.4	637.3

* Up to February 12, 1999.

Source: Schneider (1999)

Table 30. Guatemala: Mitch Reconstruction Program Portfolio, by Executing Unit
(As of February 12, 1999. Millions of Quetzales)

Executing Unit	Number of Projects	Budget Approved	Execution Actual	Actual as % of Budget
FIS	202	82.8	34.7	41.9
FONAPAZ	298	31.0	11.5	37.1
INDE	20	26.8	26.8	100.0
INFOM	552	29.1	10.6	36.4
IGN	1	3.3	-	-
MAGA	194	25.2	9.1	36.1
MCTOPV	174	323.7	322.4	99.6
Ministry of Culture and Sports	2	1.2	-	-
Ministry of Defense	2	69.5	-	-
MSPAS	10	74.1	0.3	0.4
Ministry of Labor	1	12.1	-	-
Executive Coordination Secretariat	225	112.5	25.4	22.6
TOTAL	1681	791.3	440.8	55.7

Source: Schneider (1999)

Table 31. Guatemala: Mitch Reconstruction Program Portfolio, by Project Type
(As of February 12, 1999. Millions of Quetzales)

Sector	Number of Projects	Budget Approved	Execution Actual	Actual as % of Budget
Productive Activity	194	25.2	9.1	36.1
Water Supply and Sanitation	617	34.5	12.5	36.2
Energy	20	26.8	26.8	100.0
Infrastructure: Education	96	16.4	4.9	29.9
Infrastructure: Transport	436	519.4	375.50	-
Health	12	75.0	0.4	0.5
Food Supply	101	3.9	1.3	33.3
Housing	98	25.3	10.10	-
Other	107	64.8	-	-
TOTAL	1681	791.3	440.6	55.7

Source: Schneider (1999)

Table 32. Guatemala: Budgeted Permanent Positions as reported by DTP and ONSEC, 1995-1998

Ministry	1995		1996		1997		1998	
	DTP	ONSEC	DTP	ONSEC	DTP	ONSEC	DTP	ONSEC
Presidency	3017.0	2996.0	2996.0	2647.0	266.0	295.0	257.0	348.0
External Relations	551.0	554.0	564.0	523.0	522.0	523.0	523.0	527.0
Governance	17932.0	18713.0	12718.0	24702.0	19019.0	24702.0	24702.0	24662.0
Public Finance	4249.0	3619.0	3621.0	3205.0	3220.0	3214.0	3214.0	3489.0
Education	71839.0	77301.0	77301.0	82321.0	79772.0	83820.0	83236.0	87928.0
Health	20465.0	21066.0	21067.0	20663.0	20964.0	20634.0	20597.0	20815.0
Labor	674.0	631.0	631.0	616.0	554.0	615.0	615.0	691.0
Economy	301.0	298.0	302.0	222.0	237.0	204.0	204.0	193.0
Agriculture	5687.0	4633.0	4643.0	3883.0	3870.0	3126.0	3108.0	2802.0
Communications	12698.0	12725.0	12785.0	9.5	9397.0	8642.0	8500.0	11423.0
Energy and Mines	414.0	313.0	313.0	303.0	303.0	303.0	303.0	373.0
Culture and Sports	1016.0	1016.0	1016.0	1011.0	960.0	1011.0	961.0	2292.0
TOTAL	138843.0	143865.0	137957.0	140105.5	139084.0	147089.0	146220.0	155543.0

Source : Gregory and Ochoa (1999)

**Table 33. Guatemala: Estimated Cost of the Voluntary Retirement Program as of December 31, 1997
(in millions of Quetzales)**

Institution	Estimated Cost
Ministry of Public Finance	100.0
Ministry of Agriculture	10.0
Ministry of Communications	20.0
Ministry of Culture and Sports	2.0
Ministry of Defense	60.0
Ministry of Economics	5.0
Ministry of Education	10.0
Ministry of Energy and Mines	0.5
Ministry of Governance	25.0
Ministry of External Relations	5.0
Ministry of Health	7.0
Ministry of Labor	3.0
National Office of the Civil Service (ONSEC)	1.5
National Institute of Public Administration	1.0
Secretariat for Social Welfare	10.0
Other Secretariats	7.5
National Attorney General	1.0
Secretariat for Economic Planning	5.0
Contingencies	16.5
TOTAL	290.0

Source : Gregory and Ochoa (1999)

**Table 34. Guatemala: Infant Mortality Rate, by Department
(children under one year)**

Department	Per 1,000 live births
Guatemala	39.9
Progreso	46.8
Sacatepéquez	56.2
Chimaltenango	58.9
Escuintla	67.9
Santa Rosa	43.1
Sololá	68.2
Totonicapán	84.4
Quetzaltenango	58.9
Suchitepéquez	49.4
Retalhuleu	50.2
San Marcos	40.5
Huehuetenango	37.2
El Quiché	49.3
Baja Verapáz	39.9
Alta Verapáz	28.7
Petén	35.5
Izabal	39.8
Zacapa	31.8
Chiquimula	38.5
Jalapa	34.8
Jutiapa	31.8
<i>Country Average</i>	<i>45.5</i>

Source: National Statistics Institute (INE)

Table 35. Guatemala: Estimated Cost of Reducing the Illiteracy Rate by 1 percent

	As % of Population		Population							
	1994	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population /1	8,293,706	10,799,133	11,088,362	11,385,338	11,690,465	12,003,770	12,325,471	12,655,793	12,994,968	13,343,234
Population Growth Rate /2		30.21	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Age Group:										
15-19	11.0									
20-24	8.5									
25-29	6.7									
30-34	6.2									
35-39	5.3									
40-44	4.5									
45-49	3.4									
50-54	2.8									
55-59	2.1									
60-64	2.0									
Total 15-64 Age Group /3	52.5									
Population over 15 years /4		5,669,545	5,821,390	5,977,302	6,137,494	6,301,979	6,470,872	6,644,291	6,822,358	7,005,198
Illiterate Population /5		1,849,600	1,899,137	1,950,001	2,002,261	2,055,922	2,070,901	2,126,401	2,183,389	2,241,904
Illiteracy Rate /6		32.62	32.62	32.62	32.62	32.62	32.00	32.00	32.00	32.00
CONALFA's capacity to reduce illiteracy rate /7 (assuming a 40% promotion rate)			75,240	78,000	81,000	84,000	88,000	92,000	96,000	100,000
Illiterate Population minus CONALFA's reduction /8			1,823,897	1,796,761	1,768,021	1,737,682	1,664,661	1,628,161	1,589,149	1,547,664
Expected Illiteracy Rate /9			31.33	30.06	28.81	27.57	25.73	24.50	23.29	22.09
Cost of reducing the Illiteracy rate in 1999 Quetzales /10			37,379,232	38,750,400	40,240,800	41,731,200	43,718,400	45,705,600	47,692,800	49,680,000
CONALFA's budget /11			83,060,000							
Cost of reducing the Illiteracy rate by 1% (in Q) /12				30,511,699						
Cost of reducing the Illiteracy rate by 1% (in US\$) /13				4,358,852						

Footnotes:

- /1 INE's population growth rate used in projections.
- /2 Based on INE's data for 1997-2000.
- /3 Percentage of population within the 15-64 age group, based on 1994 Census. Target population of CONALFA's Literacy Program.
- /4 Estimated using the 1994 Census proportion (52.5%)
- /5 1998 source is CONALFA. For future years, the illiteracy rate is kept constant if no intervention happens to improve the quality and coverage of primary education.
- /6 Illiterate population as % of population over 15 years of age.
- /7 1998 source is CONALFA. For future years, CONALFA's capacity to reduce illiteracy rate is assumed to improve.
- /8 Illiterate Population from line 5, minus CONALFA's cumulated reduction in line 7.
- /9 Illiterate population as % of population over 15 years of age (line 4).
- /10 Calculated by multiplying the marginal cost of educating one individual (Q468 in 1998, adjusted for inflation) by the number of people educated in a given year (line 7).
- /11 Budget approved by the Congress (reported by CIEN). Presented as reference. Its magnitude could indicate a greater budget availability to educate a greater number of persons, a under estimation of the marginal cost of educating one individual, or the partial allocation of these resources to other programs.
- /12 Based on 61,417 educated persons (78,000 educated persons / difference between the illiteracy rate of 1999 and 2000).
- /13 Exchange rate US\$1 = Q7.

Source: Anderson (1999)

Table 36. Guatemala: Education Indicators, Projections and Estimated Cost of Increasing the Gross Primary Enrollment Rate by 1 percent

	1997	1998	1999	2000	2001	2002	2003	2004
1/ Population within the 7-12 age group	1,751,775	1,805,003	1,844,905	1,886,380	1,928,788	1,980,634	2,033,913	2,088,523
2/ Population enrolled with the MINEDUC ($2_{t-1} + 5_{t-1}$)	1,544,709	1,605,490	1,679,043	1,740,320	1,815,320	1,890,320	1,965,320	2,040,320
3/ Population (7-12) not served by the MINEDUC (1-2)	207,066	199,513	165,862	146,060	113,468	90,314	68,593	48,203
4/ Drop Outs (2 * 24)	125,121	127,444	129,118	132,508	135,278	137,804	140,088	142,129
5/ New individuals integrated to the system (6+7)		75,603	61,277	75,000	75,000	75,000	75,000	75,000
6/ of which, PRONADE		75,603	61,277	55,000	60,000	60,000	65,000	65,000
7/ Night-time students			-	20,000	15,000	15,000	10,000	10,000
8/ Net population served by the MINEDUC (2+5-4)	1,419,588	1,553,649	1,611,202	1,682,812	1,755,042	1,827,516	1,900,232	1,973,191
9/ Gross Primary Enrollment Rate (%) (2 / 1)	88.18	88.95	91.01	92.26	94.12	95.44	96.63	97.69
10/ Net Primary Enrollment Rate (%)	72.59	73.45	75.51	76.76	79.12	80.44	82.13	83.19
11/ Marginal cost of adding one student in PRONADE schools (Q)			969					
12/ Marginal cost of adding one student in traditional schools (Q)			707					
13/ Infrastructure cost derived from the increase of the student population (Q)			79,446,630					
14/ Infrastructure cost per student (13 / 6)			2,190					
15/ Cost of increasing the enrollment rate by 1%, excluding infrastructure (Q)			28,769,561					
16/ Cost of increasing the enrollment rate by 1%, excluding infrastructure (US\$)			3,941,036					
17/ Cost of increasing the enrollment rate by 1%, including infrastructure (Q) (13+15)			108,216,191					
18/ Cost of increasing the enrollment rate by 1%, including infrastructure (US\$)			14,824,136					
19/ Students not promoted (failing students) (2*23)			132,126	127,504	125,610	120,541	114,657	110,728
20/ Cost of failing students (Q)			93,434,514	90,165,499	88,826,160	85,241,426	81,081,028	78,302,530
21/ Cost of failing students (US\$)			12,799,248	12,351,438	12,167,967	11,676,908	11,106,990	10,726,374
System's Internal Efficiency Indicators								
22/ Average primary promotion rate (%)	81.91	81.99	84.44	85.06	85.63	86.33	87.04	87.61
23/ Average primary failing rate (%)	13.57	10.18	7.87	7.33	6.92	6.38	5.83	5.43
24/ Average primary drop out rate (%)	8.10	7.94	7.69	7.61	7.45	7.29	7.13	6.97

Footnotes:

Source: Anderson (1999)

1/ INE's population projections till 2001. Staff estimations for the rest.

2 and 3/ For 1997, data from the original registration (Source: Information Unit, Ministry of Education (MINEDUC). For 1999-04, staff estimations based on prior year enrollment plus the total amount of new individuals integrated to the system.

4/ It is assumed that these new spaces, available after the drop outs, are used to enroll about 50% of the overage children. The other 50% enrolls through the traditional system.

6/ PRONADE's estimations to enroll new students to the educational system.

7/ MINEDUC' estimations to enroll new students through night-time classes. MINEDUC has agreed with the World Bank to enroll 75,000 students annually for five years (1998-02)

8/ Annual enrollment growth, including drop outs.

10/ For 1997, data obtained from MINEDUC (Anuario Estadístico 1997). Staff estimations for the rest.

11/ Anuario Estadístico 1997, adjusted by the inflation rate.

12/ Anuario Estadístico 1997, adjusted by the inflation rate and to include administrative expenses.

13/ Excludes 1999 infrastructure for 25,000 students already built by PRONADE; estimated by multiplying 36,277 new students by the cost of building one classroom with 40 students, Q87,600.

14/ Cost per student=Q79,446,630/(61,277-25,000=36,277 students)=Q2,190.

15/ Estimated using 29,700 students (61,277 new students, divided by the difference between gross enrollment rate of 1998 and 1998).

16/ Exchange rate US\$1 = Q7.3

19/ Failing rate (line 23) multiplied by the initial enrollment (line 2).

20/ Non promoted students (line 19) by the marginal cost of adding one student to the traditional school (line 12). This figure is underestimated because it not adjusted for PRONADE's greater marginal cost (line 11).

22, 23, 24/ Anuario Estadístico 1997, MINEDUC. For 1998-04, staff estimations assuming an improvement on the internal efficiency of the system.

Table 37. Guatemala: Comparison of Indigenous Population, by Source

Language	94 Census	Indigenous Languages Official Commission	TZIAN
K'iche'	647,624	647,624	1,896,007
Mam	346,548	346,548	1,126,959
Kaqchikel	343,038	343,038	1,032,128
Q'echi'	473,749	473,749	732,340
Achi		15,617	(*)
Poqomchi'		94,714	266,750
Q'anjob'al		75,155	211,687
Tz'utujil		57,080	160,907
Chuj		50,000	87,489
Ixil		47,902	134,599
Poqomam		46,515	130,928
Popti'		39,635	86,266
Ch'orti'		27,097	76,782
Awakateko		18,572	35,485
Akateko		40,991	40,991
Tektiteko		4,895	4,895
Uspanteko		12,402	22,025
Mopan		8,500	13,460
Itza'		650	1,835
Sakapulteko		3,033	43,439
Sipakapense		4,409	6,118
Garifuna		2,477	6,730
Xinka		107	306
Otros (**)	317,131		
TOTAL	2,128,094	2,345,093	6,118,126

(*) Linguistically these are K'iche's.

(**) This is in reference to the 94 census, which specifies 4 languages and the rest of them as Others.

Source: Comisión Paritaria de Educación (1998)

**Table 38. Guatemala: Amount of Mayan Language Speakers and Schools,
by Linguistic Community**

Language	No. of Speakers	No. of Schools	Ratio of Speakers to Schools
Awakateko	35,485	18	1,971
Q'anjob'al	211,687	103	2,055
Q'eqhi'	732,340	283	2,588
Ixil	134,599	39	3,451
K'iche'	1,986,007	429	4,629
Popti' (Jakalteko)	86,266	17	5,074
Mam	1,126,959	210	5,366
Kaqchikel	1,032,128	182	5,671
Achi	58,000	9	6,444
Poqomchi'	266,750	40	6,669
Chuj	87,489	12	7,291
Tz'utujil	160,907	19	8,469
Ch'orti'	76,782	8	9,598
Poqoman	130,928	8	16,366
Sakapulteko	43,439	NA	NA
Akateko	40,991	NA	NA
Uspanteko	22,025	NA	NA
Mopan	13,460	NA	NA
Itza'	1,835	NA	NA
Garifuna	6,730	NA	NA
Sipakapense	6,118	NA	NA
Tektiteko (Teko)	4,895	NA	NA
Xinka	306	NA	NA

Source: Tay Coyoy (1996)

Table 39. Guatemala: Indigenous Population Average Years of Schooling and Enrollment within the 7-14 Years of Age, by Department

Department	Indigenous Population as % of Total	Average School Years	Enrollment 7-14 Years 1995
Totonicapán	97%	1.5	56%
Sololá	94%	2.0	59%
Alta Verapáz	89%	1.0	36%
El Quiché	85%	1.1	40%
Chimaltenango	80%	2.8	63%
Huehuetenango	66%	1.8	49%
Quetzaltenango	61%	3.4	76%
Baja Verapáz	57%	2.3	59%
Suchitepéquez	56%	2.6	64%
San Marcos	48%	1.9	67%
Sacatepéquez	47%	3.6	70%
Chiquimula	35%	1.7	61%
Jalapa	33%	2.3	65%
Retalhuleu	31%	2.8	67%
Santa Rosa	26%	3.1	77%
El Petén	23%	2.6	60%
Izabal	23%	2.9	61%
Guatemala	12%	5.3	79%
Escuintla	10%	2.7	67%
Jutiapa	8%	2.6	71%
Zacapa	3%	3.3	74%
El Progreso	1%	3.2	83%

Source: Ministry of Education. Annual Statistical Education Report, 1996.

**Table 40. Guatemala: Net Primary Education Enrollment
by Area, Gender and Percentage of Indigenous Population**

Percentage of Mayan Population	Area	Men	Women	Total
Less than 20%	Urban	81.1%	81.7%	81.4%
	Rural	81.5%	74.9%	78.2%
From 20% to 30%	Urban	71.4%	70.7%	71.1%
	Rural	70.7%	63.4%	67.1%
From 40% to 59%	Urban	91.0%	82.7%	86.9%
	Rural	68.8%	57.4%	63.2%
From 60% to 79%	Urban	83.6%	79.0%	81.3%
	Rural	65.1%	55.3%	60.3%
More than 79%	Urban	85.6%	71.4%	78.6%
	Rural	57.4%	42.6%	50.1%

Source: Chesterfield and Rubio (1998)

Table 41. Guatemala: Student to Teacher Ratios by Department

Department	Indicator	Urban	Rural	Total
Guatemala	Total Students	27.7	42.7	30.6
	Aged 7-12	27.2	46.7	31.0
Progreso	Total	35.4	34.8	35.0
	Aged 7-12	31.6	33.8	33.2
Sacatepéquez	Total	29.1	32.2	29.8
	Aged 7-12	29.3	41.4	32.1
Chimaltenango	Total	36.1	33.8	34.8
	Aged 7-12	38.3	41.8	40.3
Escuintla	Total	32.9	36.5	35.0
	Aged 7-12	37.4	46.2	42.5
Santa Rosa	Total	33.9	38.9	37.6
	Aged 7-12	33.8	39.2	37.7
Sololá	Total	30.0	28.9	29.3
	Aged 7-12	34.1	37.5	36.3
Totonicapán	Total	55.1	43.4	45.3
	Aged 7-12	38.1	63.1	58.9
Quetzaltenango	Total	33.0	42.4	37.9
	Aged 7-12	32.6	46.2	39.6
Suchiteléquez	Total	32.3	42.2	37.3
	Aged 7-12	27.9	63.1	45.7
Retalhuleu	Total	29.0	35.8	33.3
	Aged 7-12	30.1	43.7	38.8
San Marcos	Total	36.2	49.1	46.0
	Aged 7-12	27.7	58.4	51.0
Huehuetenango	Total	38.0	33.6	34.5
	Aged 7-12	33.9	54.4	50.0
El Quiché	Total	39.2	33.1	34.2
	Aged 7-12	48.4	59.6	57.6
Baja Verapáz	Total	34.7	43.1	40.7
	Aged 7-12	40.0	61.8	55.6
Alta Verapáz	Total	34.7	31.5	32.2
	Aged 7-12	33.1	53.9	49.0
Petén	Total	32.1	34.7	34.2
	Aged 7-12	49.6	38.0	40.5
Izabal	Total	22.9	37.9	33.1
	Aged 7-12	26.7	51.2	43.3
Zacapa	Total	26.7	44.4	36.5
	Aged 7-12	24.2	48.9	37.9
Chiquimula	Total	30.1	46.9	40.1
	Aged 7-12	30.7	61.2	48.9
Jalapa	Total	36.2	44.2	41.5
	Aged 7-12	38.4	52.3	47.6
Jutiapa	Total	32.9	42.2	39.8
	Aged 7-12	36.1	44.7	45.1
Country	Total	30.7	38.6	35.0
	Aged 7-12	32.3	49.1	41.6

Source: Anderson (1999)

**Table 42. Guatemala: Average Teachers per School,
by Department and Area**

Department	Urban	Rural	Total
Guatemala	10.9	5.0	8.0
Progreso	9.3	2.2	2.7
Sacatepéquez	11.9	4.3	7.8
Chimaltenango	11.7	2.8	3.8
Escuintla	11.1	4.3	5.4
Santa Rosa	8.3	2.7	3.1
Sololá	11.1	3.3	4.1
Totonicapán	8.9	3.4	3.7
Quetzaltenango	9.7	3.8	4.9
Suchitepéquez	9.5	3.4	4.9
Retalhuleu	10.2	4.5	5.4
San Marcos	8.0	2.3	2.7
Huehuetenango	9.4	2.4	2.8
El Quiché	10.0	2.1	2.5
Baja Verapáz	9.1	1.8	2.3
Alta Verapáz	11.2	1.8	2.3
Petén	9.7	2.0	2.4
Izabal	10.7	1.8	2.4
Zacapa	10.1	1.7	2.4
Chiquimula	9.4	1.3	1.8
Jalapa	8.7	1.9	2.5
Jutiapa	9.1	2.4	2.8
<i>Country Average</i>	<i>10.2</i>	<i>2.5</i>	<i>3.4</i>

Source: Chesterfield and Rubio (1998)

**Table 43. Guatemala: Third Grade Completion Rates in Three Years
by Gender, Department and Area**

Department	Area	1991-1993		1992-1994		1993-1995		1994-1996		1995-1997	
		Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Metropolitan Area	Urban	53.3%	54.6%	49.5%	55.8%	52.9%	56.0%	53.5%	59.3%	55.0%	59.7%
	Rural			31.4%	39.8%	234.0%	233.5%	70.6%	81.6%	40.8%	52.6%
	Total	53.3%	54.6%	49.4%	55.7%	53.6%	56.7%	53.7%	59.6%	54.8%	59.6%
Guatemala	Urban	52.4%	54.4%	51.2%	54.2%	54.7%	55.5%	54.6%	59.5%	56.3%	61.0%
	Total	37.2%	38.3%	34.7%	37.1%	39.2%	39.7%	44.1%	46.0%	45.4%	48.3%
	Total	43.2%	44.8%	40.8%	43.8%	44.8%	45.7%	48.0%	51.2%	49.5%	53.2%
El Progreso	Urban	45.4%	48.7%	52.8%	60.1%	45.5%	57.2%	41.9%	58.0%	43.1%	58.3%
	Rural	27.7%	33.5%	28.1%	31.4%	30.9%	33.2%	29.6%	35.9%	33.4%	36.3%
	Total	30.7%	36.6%	32.2%	37.0%	33.4%	37.7%	31.9%	40.3%	35.3%	40.7%
Sacatepéquez	Urban	52.3%	45.6%	49.5%	45.6%	50.5%	44.7%	51.5%	50.0%	51.7%	50.2%
	Rural	39.2%	37.8%	42.2%	42.2%	39.6%	37.6%	31.1%	41.3%	44.5%	46.1%
	Total	48.5%	43.3%	47.4%	44.6%	47.2%	42.5%	45.0%	47.3%	49.4%	48.9%
Chimaltenango	Urban	46.9%	43.5%	49.5%	51.0%	49.5%	48.4%	49.7%	45.2%	46.4%	50.0%
	Rural	37.5%	32.5%	36.6%	32.2%	39.0%	33.7%	38.4%	35.5%	38.1%	35.0%
	Total	41.1%	36.8%	41.2%	38.9%	42.6%	38.9%	42.3%	38.8%	40.9%	40.0%
Escuintla	Urban	38.7%	37.9%	40.2%	43.4%	40.6%	44.4%	41.4%	45.8%	44.7%	45.9%
	Rural	27.0%	28.3%	26.3%	27.3%	28.3%	28.5%	29.6%	31.5%	32.3%	33.9%
	Total	30.4%	31.2%	30.2%	32.0%	31.7%	33.0%	32.9%	35.5%	35.8%	37.4%
Santa Rosa	Urban	43.6%	44.9%	41.8%	49.4%	41.0%	50.2%	45.6%	48.1%	47.2%	48.7%
	Rural	28.1%	30.8%	28.9%	30.41%	29.9%	31.8%	30.6%	33.3%	29.5%	32.4%
	Total	30.8%	33.5%	31.2%	33.6%	31.9%	35.0%	33.3%	35.9%	32.6%	35.3%
Sololá	Urban	38.4%	38.7%	46.6%	43.4%	46.5%	38.9%	41.7%	42.1%	44.1%	44.9%
	Rural	33.6%	29.2%	37.2%	30.8%	34.8%	32.0%	35.7%	32.4%	36.5%	33.0%
	Total	35.0%	31.8%	39.8%	34.6%	38.1%	34.0%	37.4%	35.3%	38.5%	36.3%
Tonicapán	Urban	43.3%	40.2%	44.2%	46.2%	40.0%	49.5%	50.9%	53.2%	51.0%	46.6%
	Rural	36.4%	30.1%	36.6%	31.2%	38.5%	30.6%	37.2%	32.5%	41.4%	36.3%
	Total	37.5%	31.7%	37.7%	33.5%	38.6%	33.2%	39.1%	35.0%	42.6%	37.7%
Quetzaltenango	Urban	42.5%	46.6%	45.7%	45.6%	45.7%	53.3%	48.1%	47.8%	44.0%	48.4%
	Rural	32.3%	29.1%	29.7%	27.6%	38.3%	30.7%	33.3%	30.4%	33.5%	31.0%
	Total	35.6%	34.7%	34.4%	33.1%	39.6%	34.4%	37.7%	35.6%	36.5%	36.2%
Suchitepéquez	Urban	41.8%	42.3%	42.4%	40.2%	41.7%	40.7%	44.2%	42.2%	42.9%	42.1%
	Rural	24.9%	20.0%	25.6%	22.7%	25.9%	22.5%	29.0%	26.7%	28.5%	24.5%
	Total	31.1%	28.1%	31.5%	28.8%	31.1%	28.6%	34.2%	32.2%	33.4%	30.8%
Retalhuleu	Urban	40.7%	38.9%	41.8%	41.7%	50.1%	50.5%	48.1%	48.8%	45.2%	48.5%
	Rural	29.0%	25.9%	29.6%	25.7%	31.3%	29.9%	35.0%	32.8%	36.1%	32.6%
	Total	31.6%	29.1%	32.4%	29.3%	35.3%	34.1%	37.8%	36.3%	38.0%	36.2%

**Table 43. Guatemala: Third Grade Completion Rates in Three Years
by Gender, Department and Area**

Department	Area	1991-1993		1992-1994		1993-1995		1994-1996		1995-1997	
		Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
San Marcos	Urban	45.9%	49.6%	49.4%	46.5%	46.1%	48.5%	52.0%	51.1%	47.5%	52.4%
	Rural	32.1%	24.5%	30.0%	25.3%	32.1%	27.4%	32.5%	28.1%	33.0%	28.4%
	Total	33.9%	27.9%	32.5%	28.3%	33.9%	30.2%	35.0%	31.1%	34.8%	31.5%
Huehuetenango	Urban	46.7%	48.0%	49.9%	51.3%	49.3%	48.5%	47.4%	49.1%	49.9%	49.2%
	Rural	36.7%	28.0%	34.9%	29.1%	35.7%	29.4%	37.4%	30.8%	37.3%	31.4%
	Total	38.3%	31.4%	37.1%	32.5%	37.8%	32.3%	39.0%	33.7%	39.1%	34.1%
El Quiché	Urban	39.7%	40.0%	42.9%	41.4%	39.2%	42.4%	41.0%	46.0%	46.5%	46.5%
	Rural	24.2%	21.2%	23.5%	19.2%	25.2%	20.5%	26.3%	22.4%	26.8%	22.6%
	Total	26.7%	24.4%	26.4%	22.6%	27.2%	23.8%	28.5%	26.0%	29.5%	25.9%
Baja Verapáz	Urban	38.4%	35.5%	39.5%	45.3%	40.9%	38.0%	41.8%	43.9%	46.3%	48.4%
	Rural	28.6%	25.6%	26.1%	24.3%	28.0%	27.0%	28.6%	27.8%	27.3%	25.2%
	Total	30.4%	27.7%	28.6%	28.8%	30.5%	29.1%	31.1%	31.2%	30.8%	29.5%
Alta Verapáz	Urban	40.4%	41.4%	42.2%	39.2%	44.9%	43.3%	47.3%	47.7%	43.8%	44.2%
	Rural	24.1%	16.7%	22.1%	17.4%	24.5%	18.4%	21.6%	19.7%	25.0%	20.7%
	Total	27.8%	23.3%	26.5%	22.8%	28.3%	23.7%	26.4%	25.4%	28.5%	25.6%
Petén	Urban	40.6%	41.8%	38.3%	45.5%	45.2%	53.1%	53.4%	60.3%	47.4%	54.3%
	Rural	26.3%	25.7%	24.9%	25.7%	24.2%	24.2%	23.6%	25.5%	25.2%	25.9%
	Total	28.8%	28.7%	27.0%	29.0%	27.1%	28.4%	27.4%	30.2%	28.2%	29.7%
Izabal	Urban	38.1%	42.3%	41.6%	43.1%	37.6%	49.5%	41.7%	51.0%	44.7%	52.5%
	Rural	23.6%	27.9%	21.1%	24.7%	24.7%	26.1%	28.1%	29.0%	26.1%	29.3%
	Total	26.1%	30.5%	24.2%	27.7%	26.8%	29.9%	30.3%	32.4%	28.8%	32.7%
Zacapa	Urban	44.4%	70.2%	45.2%	50.2%	41.6%	53.5%	38.0%	51.8%	43.1%	48.7%
	Rural	27.6%	34.4%	26.5%	30.4%	26.7%	31.4%	28.8%	32.2%	29.0%	31.4%
	Total	31.3%	42.7%	30.3%	34.7%	29.5%	35.6%	30.7%	36.1%	31.8%	35.1%
Chiquimula	Urban	46.0%	47.8%	46.0%	54.5%	50.9%	52.1%	52.7%	53.7%	55.1%	56.9%
	Rural	28.0%	30.6%	21.9%	25.1%	23.0%	28.8%	25.6%	29.5%	25.8%	28.0%
	Total	31.1%	33.8%	26.2%	30.5%	27.6%	32.7%	30.0%	33.8%	30.3%	33.3%
Jalapa	Urban	38.9%	46.9%	42.4%	45.2%	41.2%	44.9%	44.0%	50.8%	43.5%	56.7%
	Rural	22.7%	21.0%	23.8%	21.1%	24.7%	22.9%	25.5%	24.0%	24.3%	22.8%
	Total	26.0%	26.3%	27.5%	26.0%	27.8%	27.3%	29.1%	29.3%	27.9%	28.9%
Jutiapa	Urban	48.4%	50.3%	48.2%	52.3%	45.3%	49.3%	44.9%	52.2%	54.7%	53.6%
	Rural	32.7%	31.9%	30.7%	30.7%	30.1%	33.2%	31.6%	33.7%	30.1%	32.0%
	Total	34.9%	34.5%	33.0%	33.4%	32.0%	35.3%	33.2%	36.1%	33.3%	34.9%
Country	Urban	46.0%	47.5%	46.5%	48.7%	47.2%	49.2%	48.6%	51.7%	49.2%	52.3%
	Rural	30.4%	27.9%	29.0%	27.3%	30.4%	28.5%	31.6%	30.6%	32.2%	30.8%
	Total	34.6%	33.6%	33.5%	33.1%	34.7%	34.0%	35.9%	36.1%	36.4%	36.4%

Source: Chesterfield and Rubio (1998)

Table 44. Guatemala: Percentage of Not Promoted and School Drop Outs in 1996 who Returned to School in 1997, by Gender, Department, Area and Grade

Department	Area	1ST		2ND		3RD		4TH		5TH		6TH	
		Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Metropolitan Area	Urban	75.8%	74.1%	73.7%	66.9%	68.7%	63.0%	65.1%	63.6%	48.0%	46.7%	50.4%	46.8%
	Rural	98.0%	166.7%	74.1%	80.0%	76.5%	75.0%	32.0%	15.4%	66.7%	300.0%		100.0%
	Total	76.3%	75.1%	73.8%	67.1%	68.8%	63.3%	64.3%	62.9%	48.1%	47.4%	50.4%	47.0%
Guatemala	Urban	76.3%	75.0%	76.9%	70.8%	68.4%	59.9%	56.8%	54.1%	48.8%	43.1%	50.6%	45.3%
	Rural	70.5%	68.1%	58.5%	49.5%	58.6%	50.5%	50.0%	46.3%	44.6%	37.0%	68.0%	43.2%
	Total	72.2%	70.2%	64.7%	56.4%	62.3%	54.0%	53.1%	50.0%	46.4%	39.8%	57.8%	44.3%
El Progreso	Urban	83.2%	82.2%	85.7%	97.2%	87.0%	70.1%	66.4%	57.8%	62.8%	39.6%	46.7%	21.4%
	Rural	64.5%	67.9%	66.3%	57.0%	58.5%	57.2%	49.0%	49.7%	46.6%	37.7%	28.6%	24.1%
	Total	67.1%	70.2%	70.9%	65.2%	65.5%	60.3%	54.5%	52.6%	50.9%	38.4%	38.5%	22.9%
Sacatepéquez	Urban	71.4%	70.9%	65.3%	58.3%	53.6%	52.8%	55.7%	48.9%	48.7%	57.6%	46.8%	29.2%
	Rural	82.0%	72.7%	69.7%	70.0%	82.7%	51.4%	65.3%	36.5%	37.5%	17.4%	133.3%	10.0%
	Total	75.0%	71.5%	66.8%	63.0%	61.6%	52.4%	57.9%	45.0%	46.8%	51.1%	68.7%	23.5%
Chimaltenango	Urban	79.4%	80.7%	69.5%	74.0%	63.2%	66.8%	59.7%	42.5%	48.9%	39.6%	37.4%	49.2%
	Rural	80.1%	76.6%	69.9%	67.2%	61.7%	55.1%	46.9%	40.6%	29.8%	24.5%	52.2%	25.6%
	Total	79.9%	77.7%	69.8%	69.2%	62.2%	59.4%	51.9%	41.4%	38.6%	31.9%	43.2%	39.8%
Escuintla	Urban	86.2%	80.9%	76.3%	72.7%	61.5%	57.8%	52.4%	52.8%	55.4%	41.5%	47.7%	19.4%
	Rural	75.8%	77.1%	59.0%	58.1%	55.4%	55.4%	48.3%	38.4%	37.7%	29.3%	54.4%	20.2%
	Total	78.2%	78.1%	64.3%	61.9%	57.4%	56.2%	50.0%	44.4%	45.5%	34.0%	51.1%	19.8%
Santa Rosa	Urban	88.2%	93.5%	63.3%	59.3%	65.0%	71.9%	55.2%	41.4%	50.9%	34.0%	27.7%	12.5%
	Rural	71.8%	74.4%	59.5%	58.3%	57.8%	55.4%	50.8%	47.7%	38.1%	35.9%	32.0%	23.7%
	Total	73.7%	76.5%	60.1%	58.5%	59.1%	58.3%	51.7%	46.0%	41.4%	35.3%	30.6%	19.8%
Sololá	Urban	72.2%	69.1%	74.9%	67.7%	65.7%	65.1%	57.6%	60.7%	55.0%	40.2%	25.9%	40.0%
	Rural	76.5%	73.1%	75.6%	74.1%	61.2%	61.3%	48.0%	45.1%	30.5%	34.4%	31.9%	39.0%
	Total	75.5%	72.2%	75.4%	72.4%	62.9%	62.3%	51.6%	50.0%	39.2%	36.4%	28.6%	39.3%
Totonicapán	Urban	82.0%	72.0%	54.1%	61.2%	63.2%	85.2%	37.5%	69.4%	54.2%	29.8%	42.1%	31.6%
	Rural	63.1%	62.9%	60.5%	57.2%	55.4%	49.8%	48.6%	41.4%	51.9%	30.0%	41.0%	14.7%
	Total	65.6%	64.1%	59.8%	57.6%	56.3%	53.3%	46.9%	46.3%	52.3%	29.9%	41.4%	20.8%
Quetzaltenango	Urban	72.9%	71.7%	60.4%	53.6%	55.8%	56.4%	52.1%	46.7%	46.2%	40.0%	56.5%	72.6%
	Rural	70.5%	65.4%	61.1%	59.9%	59.6%	48.6%	47.1%	42.4%	42.0%	30.1%	35.6%	15.7%
	Total	71.1%	66.9%	60.9%	58.0%	58.2%	51.3%	49.1%	44.2%	43.8%	34.3%	46.6%	44.8%
Suchitepéquez	Urban	80.7%	73.2%	72.9%	65.0%	54.7%	61.8%	61.9%	49.3%	51.1%	50.3%	34.4%	22.7%
	Rural	82.1%	77.1%	60.5%	55.6%	50.7%	26.9%	50.5%	31.3%	27.4%	16.5%	28.9%	2.8%
	Total	81.6%	75.7%	64.7%	58.6%	52.4%	39.5%	56.3%	40.5%	40.8%	39.0%	32.3%	13.8%
Retalhuleu	Urban	85.1%	73.3%	50.6%	58.9%	68.8%	61.3%	49.7%	47.6%	51.4%	29.4%	70.3%	17.1%
	Rural	66.3%	63.0%	57.2%	56.4%	51.5%	39.0%	26.8%	21.0%	34.4%	20.2%	17.5%	42.9%
	Total	69.4%	64.9%	55.5%	57.0%	56.1%	44.2%	35.9%	31.7%	41.4%	23.9%	42.9%	26.8%

Table 44. Guatemala: Percentage of Not Promoted and School Drop Outs in 1996 who Returned to School in 1997, by Gender, Department, Area and Grade

Department	Area	1ST		2ND		3RD		4TH		5TH		6TH	
		Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
San Marcos	Urban	78.1%	75.5%	61.3%	54.9%	83.7%	58.2%	42.0%	40.0%	30.3%	33.8%	36.8%	7.4%
	Rural	63.0%	61.9%	55.7%	49.5%	45.1%	39.5%	36.1%	32.4%	34.3%	21.7%	25.1%	18.9%
	Total	64.4%	63.1%	56.3%	50.1%	50.7%	42.4%	37.4%	34.1%	33.3%	25.0%	28.0%	15.5%
Huehuetenango	Urban	73.3%	69.5%	71.1%	62.7%	62.5%	55.0%	56.3%	53.8%	36.3%	28.7%	28.8%	27.9%
	Rural	71.9%	68.9%	59.9%	55.9%	52.3%	48.7%	37.8%	37.6%	27.3%	24.6%	15.0%	16.5%
	Total	72.1%	69.0%	61.4%	56.8%	54.2%	49.8%	41.8%	41.3%	30.0%	25.8%	18.8%	20.3%
El Quiché	Urban	71.9%	71.7%	61.6%	60.0%	64.6%	51.3%	52.7%	60.9%	51.1%	70.0%	41.7%	37.5%
	Rural	61.2%	58.1%	49.8%	47.1%	41.1%	47.7%	36.3%	33.3%	30.7%	24.0%	24.0%	15.3%
	Total	62.4%	59.5%	51.4%	48.6%	44.9%	48.3%	39.9%	40.3%	36.6%	40.7%	31.3%	24.2%
Baja Verapáz	Urban	68.2%	74.8%	63.3%	72.3%	66.4%	48.6%	69.4%	59.7%	43.9%	51.9%	29.2%	11.1%
	Rural	70.2%	63.2%	61.4%	61.9%	51.7%	45.6%	40.5%	31.5%	38.3%	36.0%	29.4%	8.8%
	Total	70.0%	64.7%	61.7%	63.5%	55.0%	46.4%	46.3%	40.7%	39.9%	42.5%	29.3%	9.3%
Alta Verapáz	Urban	73.1%	73.1%	63.1%	67.8%	68.3%	59.8%	44.0%	56.5%	33.9%	46.9%	40.4%	22.2%
	Rural	57.7%	55.3%	47.0%	44.6%	40.9%	41.8%	31.5%	39.5%	30.1%	38.8%	25.0%	11.4%
	Total	59.9%	57.8%	50.1%	49.0%	46.8%	47.0%	35.1%	45.3%	32.0%	42.6%	32.1%	15.7%
Petén	Urban	90.9%	92.0%	67.1%	69.0%	67.9%	60.0%	63.3%	60.7%	35.5%	48.4%	16.4%	17.9%
	Rural	69.6%	68.0%	54.0%	52.1%	58.3%	47.9%	38.5%	36.0%	38.1%	34.2%	27.8%	10.5%
	Total	71.4%	70.0%	56.0%	54.3%	59.9%	49.7%	44.2%	41.6%	37.3%	38.8%	23.7%	12.8%
Izabal	Urban	80.4%	87.4%	66.7%	69.7%	58.5%	63.9%	57.2%	51.3%	53.6%	42.1%	27.6%	31.6%
	Rural	67.9%	64.6%	61.6%	57.9%	61.4%	48.2%	45.8%	46.8%	40.8%	42.4%	17.5%	22.5%
	Total	69.4%	67.1%	62.5%	59.7%	60.8%	51.1%	48.5%	47.9%	44.5%	42.3%	20.7%	25.2%
Zacapa	Urban	70.5%	88.4%	69.7%	59.6%	69.9%	61.7%	70.1%	48.5%	42.3%	34.0%	139.1%	138.5%
	Rural	70.5%	69.9%	62.2%	59.6%	63.5%	54.9%	42.6%	54.1%	45.9%	39.2%	39.0%	29.2%
	Total	70.5%	72.9%	63.8%	59.6%	65.1%	56.6%	52.0%	52.3%	44.4%	37.9%	75.0%	67.6%
Chiquimula	Urban	84.3%	84.2%	63.7%	58.5%	61.9%	56.8%	51.4%	51.3%	46.2%	49.4%	61.1%	20.8%
	Rural	64.8%	65.5%	52.4%	53.3%	46.3%	42.5%	41.9%	37.0%	37.1%	54.7%	25.5%	13.8%
	Total	66.8%	67.8%	54.3%	54.1%	50.3%	46.2%	45.1%	42.0%	41.6%	52.5%	39.6%	15.9%
Jalapa	Urban	73.1%	74.2%	72.0%	57.6%	57.3%	64.5%	56.9%	63.0%	41.6%	52.1%	18.5%	40.0%
	Rural	68.7%	64.8%	59.8%	57.3%	57.5%	48.9%	43.2%	31.5%	41.8%	29.3%	25.5%	37.0%
	Total	69.4%	66.2%	62.2%	57.3%	57.5%	52.8%	47.0%	40.4%	41.7%	40.4%	21.8%	37.5%
Jutiapa	Urban	94.9%	89.7%	68.9%	68.7%	62.5%	75.0%	55.6%	47.8%	38.2%	82.2%	50.0%	50.0%
	Rural	72.2%	71.2%	60.7%	57.6%	58.9%	50.3%	40.4%	35.0%	38.8%	35.6%	42.9%	25.5%
	Total	74.3%	73.1%	61.7%	59.2%	59.5%	54.8%	43.3%	37.9%	38.6%	47.2%	44.5%	34.0%
Country	Urban	77.6%	75.9%	68.8%	65.2%	64.8%	60.9%	56.5%	53.6%	46.0%	44.8%	44.3%	39.3%
	Rural	68.4%	66.4%	58.3%	55.0%	53.7%	48.0%	42.6%	39.1%	37.2%	32.1%	34.7%	22.0%
	Total	70.3%	68.3%	60.8%	57.3%	56.9%	51.8%	47.6%	44.7%	40.8%	37.7%	39.3%	30.1%

Source: Chesterfield and Rubio (1998)