

Modernizing Guatemala's Public Financial Management For Results and Transparency

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Overview

Supported by the World Bank through four loans since 1995, Guatemala has revolutionized its public financial management system. The government now has reliable, timely, and detailed financial information at all levels through the adoption of modern information and communication technology (ICT) systems. It has cut costs and changed business practices, reorienting its bureaucratic culture, and can now formulate, execute, and account for results-focused budgets.

Challenge

Guatemala emerged from 35 years of guerrilla warfare in the early 1990s facing serious problems that included under-investment in social services and basic rural infrastructure, deep poverty, and a weak public sector. Addressing the social deficit was critical to maintain the fragile peace, but despite the best intentions and resources, the government was unable to meet targets for increased social spending. A World Bank funded assessment found that the government's financial management "system" was overly centralized, largely paper-based, non-transparent, antiquated, focused (if anything) on formal rules compliance and not substantive results, and was biased toward spending in the capital region to the detriment of the poorer rural areas.

Approach

The 16-year Integrated Financial Management System IFMS project, funded through four sequential loans, has been a partnership of discovery and innovation between Guatemala and the Bank. The project began before many of the global trends we are familiar with today – such as a focus on corruption, transparency, results-based budgeting, monitoring and evaluation, web-based applications, cloud computing, penetration of the internet – but it has adapted to and incorporated all these elements. Guatemala wrote its own software instructions, integrated the various sub-systems (budget, accounting, treasury, public investment, procurement), created a model system reaching all municipalities, linked its budgeting to parallel revenue systems supported by another World Bank operation, the Guatemala Tax Administration TAL (P048654), and constantly pushed to increase the speed, scope, and power of the system. The Bank responded by streamlining its approval of ICT investments, supporting the risky decision for home-grown development of the system, fielding strong multi-disciplinary teams, providing support to reform champions during political

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US\$69.5 million
total of a series of loans

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transitions, and heralding the Guatemalan advances as models for emulation.

Results

Guatemala has transformed its public financial management system:

- Since fiscal year (FY) 2004, spending by program, poverty levels, and impact by gender can be monitored for the purpose of budget formulation.
- Detailed performance indicators linked to budget execution have been tracked in health and education since the 2012 budget cycle.
- Payments are completed in 72 hours or less (as of 2012) instead of in 6-9 months, as was the case in 1998.
- Since 2002, 1,200 government banking accounts have been eliminated and replaced by a single treasury account or centralized daily oversight of accounts.
- Payments to suppliers and employees have been made electronically since 2011.
- Since 2004, government websites published detailed and current data on government financial activities.
- Since 2011, all municipalities have used a linked project development system.
- New software that integrates spending, revenues, and citizen services is being rolled out in municipalities from 2011.
- The Comptroller General's Office, a project partner since the beginning, has strengthened financial control through a system linked to the financial system and has initiated performance auditing and citizen social auditing.
- Since 2009, internal auditing units have been created in a majority of agencies to strengthen preventive risk management.
- Since 2011, public procurement is supported by a powerful system to register vendors, publicize tendering, receive electronic bids, and report on contract awards.

Bank Contribution

The Bank's small (US\$376,000) Institutional Development Fund grant in 1994 that was used to assess public financial management was the vanguard for a series of loans totaling US\$69.5 million. Bank loans represent 85 percent of total estimated project costs. Financing of US\$800,000 from the Japan Policy and Human Resources Development trust fund helped in preparation of the third loan.

Partners

Other development partners at times played roles in the nurturing or implementation of the project. United States Agency for International Development (USAID) and United Nations Development Programme (UNDP) provided timely support during project preparation, and the latter acted as the procurement and financial management agent for the first 10 years of the project. More recently the European Union has provided support for the strengthening of government training programs for government staff executing the system. The Inter-American Development Bank also provided parallel financing.

Moving Forward

The various ICT systems and related policy reforms have been fully embedded in government

operations, and are synonymous with Guatemala's public financial management system. The government has promoted institutionalization of the project through transfer of staff, enhanced training programs, formalization of line unit responsibilities, and the creation of an interagency technical committee to ensure the coherence and sustainability of the inter-related systems. It is seeking additional external funding to support ongoing efforts to expand the budget's results focus and carry out further integration of all IFMS systems.

Beneficiaries

To Pedro, financial operations director for a small town, the IFMS system – along with related training and online support from the capital – has been *“a revolution—we know instantly what we are spending, where and for what. Citizens can pay taxes or fees, and change services online, my staff can concentrate on services rather than on meaningless red tape, and more importantly citizens are becoming alert to the performance of central government-funded services in town as well. They can check where their taxes go. This government has joined the 21st century and the changes are only beginning.”* .