

78000

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized



# TOWARDS BETTER EXPENDITURE QUALITY GUATEMALA PUBLIC EXPENDITURE REVIEW

MAY 2013



THE WORLD BANK

CENTRAL AMERICA COUNTRY MANAGEMENT UNIT | POVERTY REDUCTION AND ECONOMIC  
MANAGEMENT | LATIN AMERICA AND THE CARIBBEAN REGION

CURRENCY AND EXCHANGE RATE (As of May 11, 2012)

CURRENCY UNIT = GUATEMALAN QUETZALES

US\$1.00 = Q.7.78

FISCAL YEAR

January 1 - December 31

Vice President:	Hasan A. Tuluy
Country Director:	C. Felipe Jaramillo
Sector Director:	Rodrigo A. Chaves
Sector Manager:	Auguste Tano Kouame
Sector Leader:	Oscar Calvo-Gonzalez
Task Team Leader:	Jasmin Chakeri

## ABBREVIATIONS AND ACRONYMS

BAC	Budget Availability Certificate	MiFaPro	Conditional Cash Transfer Program <i>(Mi Familia Progresa)</i>
CACIF	Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations <i>(Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras)</i>	MTEF	Medium-Term Expenditure Framework
CAS	Security Advisory Council <i>(Consejo Asesor de Seguridad)</i>	MINUGUA	United Nations Verification Mission for Guatemala
CGC	General Auditor's Office <i>(Contraloría General de Cuentas)</i>	MOF	Ministry of Finance
CICIG	International Commission against Impunity in Guatemala <i>(Comisión Internacional contra la Impunidad en Guatemala)</i>	MOI	Ministry of the Interior
COVIAL	Road Conservation Executing Agency <i>(Unidad Ejecutora de Conservación Vial)</i>	NGOs	Non-governmental Organizations
CREMA	Contracts for Rehabilitation and Maintenance <i>(Contrato de Rehabilitación y Mantenimiento)</i>	OECD	Organization for Economic Cooperation and Development
DGC	General Directorate of Roads (Dirección General de Caminos)	PEFA	Public Expenditure and Financial Accountability
DR-CAFTA	Dominican Republic-Central America Free Trade Agreement with the United States	PIP	Public Investment Program
EC	European Commission	PFM	Public Financial Management
ENCOVI	Living Standards Measurement Survey <i>(Encuesta Nacional de Condiciones de Vida)</i>	PNC	National Civil Policy <i>(Policía Nacional Civil)</i>
FMIS	Financial Management Information System	POA	Annual Operating Program <i>(Programa Anual Operativo)</i>
FONAPAZ	National Peace Fund <i>(Fondo Nacional para la Paz)</i>	SAT	Superintendence of Tax Administration <i>(Superintendencia de Administración Tributaria)</i>
FSS	Social Solidarity Fund <i>(Fondo Social de Solidaridad)</i>	SIAF	Integrated financial management system <i>(Sistema Integrado de Administración Financiera)</i>
GDP	Gross Domestic Product	SICOIN	Integrated Accounting System <i>(Sistema de Contabilidad Integrado)</i>
Guatecompras	Guatemalan state procurement system	SIGES	Management System <i>(Sistema de Información y Gestión)</i>
IDB	Inter-American Development Bank	SMEs	Small and medium size enterprises
LAC	Latin America and the Caribbean	SNIP	National Public Investment System <i>(Sistema Nacional de Inversión Pública)</i>
LAPOP	Latin American Public Opinion Project	STA	Single Treasury Account
MDG	Millennium Development Goal	UNDP	United Nations Development Program
MICIVI	Ministry of Communications, Infrastructure and Housing <i>(Ministerio de Comunicaciones, Infraestructura y Vivienda)</i>	VAT	Value-Added Tax

# TABLE OF CONTENTS

<b>» Executive Summary</b>	<b>6</b>
A. Guatemala's Development Challenges	7
B. Overview of Public Finances	7
C. The Quality of Public Expenditure in Selected Sectors	9
D. Citizen Security and Public Expenditures	11
E. Budget Process, Public Financial Management and Procurement	13
<b>Chapter 1: Guatemala's Development Challenges Ahead</b>	<b>16</b>
A. Introduction	17
B. Historical and Political Context	18
C. Economic Development Challenges	19
<b>Chapter 2: Overview of Public Finances</b>	<b>26</b>
A. Introduction	27
B. Structure and performance of revenues	29
C. Structure and performance of expenditures	35
D. Fiscal sustainability	40
E. Conclusions and recommendations	43
<b>Chapter 3: The Quality of Public Expenditure in Selected Sectors</b>	<b>44</b>
A. Introduction	45
B. Quality of Public Expenditure in the Education Sector	46
C. Quality of Public Expenditure in the Health Sector	50
D. Quality of Public Expenditure in the Road Transport Sector	55
E. Conclusions and recommendations	60
<b>Chapter 4: Citizen Security and Public Expenditures</b>	<b>64</b>
A. Introduction	65
B. Trends in Crime and Violence	66
C. Drivers	69
D. The Institutional Response	71

E. Financing of Security and Justice	73
F. Assessing the Outcomes	77
G. Conclusions and recommendations	83

## **Chapter 5: Budget Process, Public Financial Management and Procurement** **85**

A. Introduction	86
B. Budget Process and Public Financial Management	88
C. Public Procurement	100
D. Conclusions and recommendations	107

## **List of references** **110**

### **Annexes** **115**

<b>Annex 1:</b> Results of OLS Regression	115
<b>Annex 2:</b> Data Envelopment Analysis (DEA)	116
<b>Annex 3:</b> Impact of Recent Natural Disasters on Road Sector	117
<b>Annex 4:</b> Public expenditures on citizen security	119
Map	121

### **List of Figures**

<b>Figure 1.1:</b> Governance indicators for Guatemala (percentile rank 0-100)	24
<b>Figure 2.1:</b> Central government tax revenue by type of tax (% of GDP)	31
<b>Figure 2.2:</b> Central government expenditure - functional classification (% of GDP)	39
<b>Figure 2.3:</b> Social expenditure in Central America	41
<b>Figure 2.4:</b> Municipal spending by functional classification (2009)	41
<b>Figure 2.5:</b> Municipal spending by economic classification (2009)	41
<b>Figure 2.6:</b> Municipal and central government per capita social expenditure and poverty, by department (2009)	41
<b>Figure 2.7:</b> Projected public debt service	42
<b>Figure 3.1:</b> Central government spending on education, by function (% of GDP)	46
<b>Figure 3.2:</b> Distribution of education expenditure by department (average 2008-09)	47
<b>Figure 3.3:</b> Relationship between completion rates (grade 9), adult literacy, spending on education per pupil (bubble size) and malnutrition rates (color) in selected municipalities (2010)	49
<b>Figure 3.4:</b> Relationship between test scores of graduates, adult literacy, spending on education per pupil (bubble size) and malnutrition rates (color) in selected municipalities (2010)	49
<b>Figure 3.5:</b> Distribution of central government health expenditure and doctors by department (average 2008-09)	53
<b>Figure 3.6:</b> Relationship between vaccination coverage, poverty, per capita spending on health (bubble size) and malnutrition rates (color) by department	54
<b>Figure 3.7:</b> Relationship between infant mortality, poverty, per capita spending on health (bubble size) and malnutrition rates (color) by department	54
<b>Figure 3.8:</b> Central and municipal expenditure in road sector by department (in quetzales per capita, 2008-09)	59
<b>Figure 4.1:</b> Central American homicide rates (2000-2011)	67
<b>Figure 4.2:</b> National Government expenditure on security and justice (2006-2010)	73
<b>Figure 4.3:</b> Security budget in Central American countries(2006-2010)	74
<b>Figure 4.4:</b> National Government expenditure on security, by institution (2006-2010)*	74
<b>Figure 4.5:</b> National Government expenditure on justice, by institution (2006-2010)*	74
<b>Figure 4.6:</b> External funding for citizen security (2005- 2011)	74
<b>Figure 4.7:</b> Spending on prevention and crime control (2006-2010)	76
<b>Figure 4.8:</b> Impunity rate for all crimes	79
<b>Figure 4.9:</b> Unreported crimes in Guatemala	80
<b>Figure 4.10:</b> Trust in the National Police (2010)	81

<b>Figure 4.11:</b> Police force per 100,000 habitants	81
<b>Figure 5.1:</b> CGC audit opinion regarding budgeted revenues and expenditures of decentralized and autonomous entities (2006-10)	95
<b>Figure 5.2:</b> Central government fideicomisos: resources allocated by primary purpose	95
<b>Figure 5.3:</b> Autonomous and decentralized fideicomisos: resources allocated by primary purpose (2004-10)	95
<b>Figure 5.4:</b> Performance of the Guatemalan public procurement system	102
<b>Figure 5.5:</b> Performance of the Guatemalan public procurement system	102
<b>Figure 5.6:</b> Institutional procurement practices - amounts contracted by method	105
<b>Figure 5.7:</b> Budgetary performance of MICIVI procurement (Q. million)	106
<b>Figure 5.8:</b> MICIVI contracting practices - contracts amendments	106

### List of Tables

<b>Table 1.1:</b> Central America: key social indicators*	20
<b>Table 1.2:</b> Key macroeconomic indicators	23
<b>Table 2.1:</b> Central America central government revenues (% of GDP)	28
<b>Table 2.2:</b> Revenue impact of tax reforms and reversals by the Constitutional Court	31
<b>Table 2.3:</b> Tax effort in Latin America	33
<b>Table 2.4:</b> Tax expenditures by type of tax (current Q. millions)^	34
<b>Table 2.5:</b> Progress towards economic, fiscal and social objectives of the Peace Accords	37
<b>Table 2.6:</b> Rigidity classification of the 2011 budget (as of September 2011)	38
<b>Table 2.7:</b> Central government expenditure - economic classification (% of GDP)	38
<b>Table 3.1:</b> Central government spending on health*	52
<b>Table 3.2:</b> Condition of the road network in selected Latin American countries	57
<b>Table 3.3:</b> Public expenditure on road transport in Central American countries*	57
<b>Table 3.4:</b> Central government expenditure in the road transport sector (Q. millions)	59
<b>Table 3.5:</b> MICIVI's investment and maintenance expenditures under Prog. 11 (Q. millions)	60
<b>Table 3.6:</b> Expected impact of alternative financing options	62
<b>Table 4.1:</b> Budget allocated to security and justice functions (Q. million, 2011)	76
<b>Table 4.2:</b> Modifications and execution of security budget (Q. million, 2010)	78
<b>Table 4.3:</b> Effectiveness in the resolution of cases filed in first instance, according to judicial categories, (2005 & 2009)	82
<b>Table 5.1:</b> Deviations of actual from originally approved budget (2005-2010)	92
<b>Table 5.2:</b> Expenditures of Central Government fideicomisos (2004-2010) (Q. millions)	97
<b>Table 5.3:</b> Expenditures executed by NGOs and other agreements	97
<b>Table 5.4:</b> Fideicomiso audits performed by the CGC (2007-2010)	99
<b>Table 5.5:</b> Procurement by method (% of total)	10

### List of Maps

<b>Map 3.1:</b> 9th grade completion rates vs. graduate test scores at municipal level (2010)	49
<b>Map 3.2:</b> Technical efficiency in education across Guatemalan municipalities (2009)	50
<b>Map 3.3:</b> Technical efficiency in Guatemalan municipalities	51
<b>Map 3.4:</b> Per capita expenditure on health services by department (average for 2008-09)	53
<b>Map 3.5:</b> Vaccination and infant mortality rates by department	54

### List of Boxes

<b>Box 2.1:</b> A short history of fiscal reforms post-Civil War	30
<b>Box 2.2:</b> Key provisions of the 2012 tax law	34
<b>Box 2.3:</b> The government's reform program for fiscal transparency	36
<b>Box 5.1:</b> PFM strengths and weaknesses identified by the Guatemala PEFA (2009)	87

## ACKNOWLEDGEMENTS

*This report was prepared by a team led by Jasmin Chakeri (LCSPE) under the overall supervision and guidance of C. Felipe Jaramillo (Country Director, LCC2C), Rodrigo A. Chaves (Sector Director, LCSPR), Auguste Tano Kouame (Sector Manager, LCSPE), Oscar Calvo-Gonzalez (Lead Economist and Sector Leader, LCSPR) and Oscar Avalle (Country Manager, LCCGT). The peer reviewers were Emily Sinnott (ECSH4), Ulrich Lachler (EASPR), Rashmi Shankar (ECSP1) and Bernard Harborne (AFTCS).*

*The core team included David Gould (SARCE), Miguel Eduardo Sanchez Martin, Luisa Felino, Mateo Clavijo, Patricia Chacon Holt (all LCSPE), Rodrigo Serrano Berthet (LCSSO), Joao Veiga Malta (LCSPT), Massimo Mastruzzi (WBIOG), Ana Silvia Aguilera (consultant), Jose Eduardo Gutierrez Ossio (LCSPS), Carlos Perez-Brito (consultant) and Christian Schuster (consultant). Inputs and background papers were also received from Ricardo Barrientos (Instituto Centroamericano de Estudios Fiscales, ICEFI), Juan Belikow (consultant), Simone Bunse (consultant), Maynor Cabrera (ICEFI), Valentina Calderon (consultant), Verena Fritz (PRMPS), Katherine Grau (LCCGT), Hernan Pfluecker (consultant), Hector Rosada (consultant), Alys Willman (SDV) and Melissa Zumaeta (consultant).*

*The team would like to thank Roland Clarke (LCSPS), Steven Brushett (LCSTR), Phil Keefer (DECMG), Alberto Leyton (LCRVP), Fernando Paredes (LCCGT), Mariano Rayo (consultant) and David Yuravlivker (consultant) for their valuable guidance and comments during the preparation of this report.*



## EXECUTIVE SUMMARY

## A. GUATEMALA'S DEVELOPMENT CHALLENGES

ES.1. **Guatemala has made tremendous strides in moving toward democracy and building institutions after a long civil war.** The Peace Accords identified an ambitious agenda for reconciliation and reincorporation of excluded groups, human development, sustainable economic development and modernization of the state and improved governance. Since the signing of the Accords in 1996, progress has been made in reducing poverty (especially in urban areas), improving a number of human development outcomes, and maintaining a stable macroeconomic environment.

ES.2. **Economic growth has been weak despite prudent macroeconomic management.** Since 1990, real GDP growth per capita in Guatemala has averaged about 1.2 percent, about three-quarters of a percentage point less than the rate in the rest of Latin America and the Caribbean and significantly less than other middle-income countries. On the other hand, volatility has been much lower than elsewhere in Latin America; this relative stability can be attributed to prudent macroeconomic policies that have kept inflation and public debt at manageable levels, while avoiding fiscal imbalances that plagued much of the region.

ES.3. **Advances in structural reforms have been made.** Guatemala has made progress in improving its investment climate, ranking among the top reformers worldwide in *Doing Business* indicators in 2006 and 2007. In addition, in 2006 Guatemala implemented the Dominican Republic-Central America Free Trade Agreement with the United States (DR-CAFTA) that helped secure a more open trading environment between Central America and the United States. Foreign direct investment (FDI) increased nearly threefold from 2003 to 2010. Financial sector legal and regulatory reforms implemented since 2000 have improved banks' solvency and resilience to market volatility. Improvements have also been made with respect to transparency, especially in the area of public expenditure through the introduction and expansion of the integrated financial management system.

ES.4. **Still, challenges remain.** Key institutional obstacles to effective policy making remain, however, including the instability in the country's political party

system. Guatemala also continues to lag behind its peers in terms of poverty incidence, inequality and human development outcomes, especially in indigenous areas. Concerns over rising crime and violence are also becoming more and more prominent.

## B. OVERVIEW OF PUBLIC FINANCES

ES.5. **In the decade and a half since the Peace Accords, both tax revenue and expenditure have increased.** Guatemala has been able to gradually raise its tax intake thanks to incremental reforms: the tax to GDP ratio increased from 8.8 percent in 1995 to 12.1 percent in 2007 and 11.0 percent in 2011. Notably, the rise in revenues has taken place despite the absence of a major overhaul of the tax system and despite a gradual decline in import tariffs resulting from trade liberalization and regional integration. The increase in revenues was accompanied by an expansion in spending to meet the commitments of the Peace Accords: total central government expenditure increased from 10.3 percent to 14.6 percent in the same period, with the social sectors accounting for a significant share of this increase.

ES.6. **While the increase in expenditure has helped improve key human development indicators, several of the Peace Accord targets in the social sectors have not been achieved.** As found in previous Public Expenditure Reviews, Guatemala has been able to make significant improvements in most social indicators since 1996, albeit not at the pace foreseen in the Peace Accords. While the targets for literacy, gross primary enrollment, and vaccination coverage for polio were met or exceeded, those for infant and maternal mortality have not yet been achieved. This raises questions about the *quality* of public expenditures, especially in the social sectors, including issues related to geographic targeting and technical efficiency. It also emphasizes the importance of improved monitoring and evaluation mechanisms that can feed back into policy design.

ES.7. **Despite the progress made since the Peace Accords, Guatemala is still among the countries in the region with the lowest tax revenues, and the lowest per capita spending on the social sectors.** At around 11 percent of GDP, Guatemala's tax-to-GDP ratio is well below the Central American average of 13.3

percent, and far lower than the average for all of Latin America (19.2 percent).<sup>1</sup> This low level of revenues is reflected in the limited public expenditures, with Guatemala occupying the bottom position in most international comparisons.

**ES.8. Unable to build consensus and political support for comprehensive tax reforms, successive governments passed a series of piecemeal measures aimed at improving collections.** These include changes both in tax policy (which were frequently reversed through legal challenges) and improvements in tax administration. These measures did not, however, bring about a major shift in the structure of Guatemala's tax system, which relies heavily on indirect taxes, especially the VAT, which accounts for about half of total tax revenues. Direct taxes – especially the income tax – remain hampered by small tax bases, numerous exemptions, rampant evasion and widespread economic informality.

**ES.9. However, the tax reforms approved in early 2012 represent an important milestone.** While the direct revenue impact of the reforms is expected to be modest (up to 1.3 percent of GDP by 2015), the reforms are an important step towards improving income taxation as well as further strengthening tax and customs administration, which will reinforce the country's tax system in the long run.

**ES.10. The recent tax reforms are to be accompanied by a set of measures to improve public expenditure management.** In recent years, the debate about tax reforms has been closely tied to the need for improvements regarding expenditure efficiency and transparency. A key argument used by opponents of the tax reform was that an increase in tax revenue would only contribute to inefficient spending, corruption and – by extension – mediocre outcomes in public service delivery. In March 2012, the Executive submitted a proposal to Congress, which includes reforms to the civil service, public trust funds, procurement, and sanctions against illicit enrichments by public officials.

**ES.11. Expenditure composition seems to be less of a problem than the overall small expenditure envelope.** While capital expenditures (at around 4 percent of GDP) are considered insufficient to support

sustainable growth, the allocation of expenditures by function seems to be broadly in line with the government's development objectives: over 50 percent of total spending goes to the social sectors, for instance. However, when measured as a share of GDP, public expenditures in most priority areas (including education, health, transport and citizen security) lag behind other countries in the region.

**ES.12. The regional distribution of public expenditure shows large disparities.** Central government expenditure allocations tend to disproportionately benefit geographic areas that are not the neediest in terms of poverty or social indicators. While municipal governments do have limited own revenue assignments, their budgets tend to be small and cannot make up for these disparities, especially in the social sectors. However, in sectors such as transport, municipal investments do play an important role.

**ES.13. Conservative fiscal management has led to relatively low public debt levels.** However, debt levels have been rising. Moreover, Guatemala's optimal public debt level may lie below that of other countries of a similar income level, given its low tax collections.

### Recommendations

**ES.14. Measures aimed at increasing tax collections and improving the quality of expenditure are critical in order to enable Guatemala to meet the targets of the Peace Accords, enhance equity and improve social outcomes.** The approval of the recent tax reforms, and the government's commitment towards strengthening transparency, are important steps in the right direction. However, in light of the low estimated rates of tax effort, significant tax expenditures and rampant evasion, institutional strengthening of the tax administration will be needed to ensure that the reforms can be implemented effectively. In addition, it will be important to secure the approval of the key components of the transparency package submitted to Congress.

**ES.15. Better information is needed to improve expenditure quality and adequately assess the regional distribution of public spending.** Given the existing deficiencies in the integrated financial management system (SIAF) and the integrated accounting system

1. OCDE (2011).

(SICOIN), it is difficult to obtain comprehensive information on resource allocations by municipality or department. Availability of sectoral outcome indicators at the sub-national level is even more limited. In order to allocate scarce resources in the most effective way, better information is required and needs to be linked to budget preparation.

**ES.16. Finally, investment in infrastructure should be boosted.** The new government is committed to linking its medium-term debt management strategy more closely to its investment plans, which would help utilize financing in a more efficient way. However, given the limited public resources available, Guatemala's investment needs cannot be met by the government alone; private sector participation will be important (see Chapter 3).

### C. THE QUALITY OF PUBLIC EXPENDITURE IN SELECTED SECTORS

**ES.17. Guatemala remains characterized by low development outcomes, considering its income level.** In the areas of education, but especially in health and nutrition, Guatemala performs significantly worse than other countries in Latin America. Its infrastructure development is also lagging behind, and is negatively impacted by the natural disasters that affect the country every year. While there are a multitude of factors that affect these outcomes, both overall expenditure levels as well as expenditure quality can play an important role. While overall spending levels may be a binding constraint, efficiency improvements would be beneficial in getting “more bang for the buck”. In particular, there is great variation in the efficiency<sup>2</sup> of health and education spending at the sub-national level. In the transport sector, there is also ample room for improving the quality of public expenditure.

#### Education

**ES.18. Education spending, especially at the primary level, has increased in recent years, in line with government priorities.** Since 2004, Guatemala has boosted its education spending from 2.6 percent of GDP to 3.2 percent, reflecting a strong focus on strengthening social expenditure by the previous administra-

tion. Most of this spending takes place at the central level, with municipalities accounting for less than 11 percent. Incidence analysis suggests that education expenditure is overall poverty neutral. While primary education expenditure is found to be progressive (i.e. disproportionately benefiting the poor), spending on secondary and tertiary education is regressive.

**ES.19. Preliminary analysis suggests that there is no clear relationship between the level of spending and student achievement at the municipal level.** For example, the two municipalities of San Sebastián and Tectitán in the Department of Huehuetenango show very different 9th grade completion rates (12.4 percent and 35.5 percent, respectively) even though both record very low adult literacy rates and high malnutrition rates, and even though the municipality of San Sebastián spends more per pupil than Tectitán. A similar relationship can be found when looking at test scores of graduates as the main output indicator. The analysis also suggests that high performance in completion rates is not necessarily correlated with high quality, as measured by higher test scores. In addition, higher graduation rates and higher test scores are not necessarily correlated. When technical efficiency scores are mapped against overall spending and indices of need (extreme poverty rates) at the municipal level, two interesting lessons emerge: first, several municipalities appear to be inefficient whether measured against need or spending, or a combination of both. Second, there appears to be regional clustering among efficient and inefficient municipalities.

**ES.20. The variation in educational outcomes does not appear to be primarily driven by public education spending.** Demographics and other socio-economic indicators may be responsible for determining such large variations in performance. This is confirmed by regression analysis, which shows that education spending is not statistically significant with respect to explaining student achievement, as opposed to the majority of demographic and socio-economic indicators.

#### Health

**ES.21. Despite a noticeable increase in public expenditure on health and social assistance from 1.2 to 1.6**

2. We define efficiency as follows: 1) *allocative efficiency*: the extent to which public expenditure allocations meet the government's priorities and strategic goals; 2) *technical efficiency*: the relationship between inputs (public spending and other inputs) and outputs.

**percent of GDP between 2008 and 2010, spending levels remain low by international and regional standards.**

Expenditures on health services in particular expanded between 2004 and 2008, and then sharply increased by 25 percent in nominal terms in 2009. On average, the central government accounts for 96 percent of total public health spending. However, there is a significant amount of geographic variation: municipal shares in total per capita public health expenditure range from 1.1 percent in the department of Retalhuleu to 18.8 percent in Suchitepéquez.

**ES.22. Health expenditure and health outcomes do not appear to be strongly linked.**

Immunization rates do not show a clear-cut relationship either with public spending on health or with poverty levels across departments. Only infant mortality and under five mortality indicators show a negative (but weak) relationship with public spending on health. The percentage of children under care seems to be much more related to mortality rates than variations in public expenditure per se. Results from the household survey confirm that access to health care services remain a problem, especially affecting pregnant women in the poorest quintile living in rural areas. Thus, efforts could be aimed at increasing access to health facilities and doctors in the less-favored areas.

**ES.23. Weak health outcomes are concentrated in the west and northwest of Guatemala.**

On the one hand, Guatemala, Sacatepéquez, and Zacapa have higher spending on health, smaller poverty rates, lower malnutrition rates and lower infant mortality rates; on the other hand, most of the departments in the west and northwest of the country exhibit high mortality rates, clearly correlated with high malnutrition and an extremely high poverty incidence. The departments presenting high infant mortality rates are also characterized by a low percentage of births attended by doctors, even when the number of doctors in those departments is not significantly lower than in the rest of the country. This suggests barriers in the access to public health services among the poor that may be embedded in their own socioeconomic conditions. This observation goes in line with other recent papers which also highlight access limitations for the poor in Guatemala.<sup>3</sup>

## Road Transport

**ES.24. Guatemala's road network has deteriorated in part due to consecutive natural disasters.**

An estimated 65-70 percent of the paved network is in bad condition. In the last years the score of the Guatemalan road network has deteriorated based on international standards and in comparison with Latin American and Caribbean (LAC) countries.

**ES.25. Guatemala budgets about 1.4 percent of GDP per year for the road sector, which is relatively low.**

While Guatemala invests the second highest amount in US dollar terms (US\$495.5 million as of 2010) in Central America, as a share of GDP its investment (1.2 percent) is lower than that of Panama (1.9 percent) and Nicaragua (1.8 percent), but above Honduras (0.9 percent) and El Salvador (0.3 percent). A recent IMF study estimates that Guatemala could raise growth by over 1 percentage point by increasing its investment-to-GDP ratio to the average for Mexico, Peru and Chile.<sup>4</sup>

**ES.26. Financial needs in the sector are generally much higher than budgetary allocations, and there is no contingency funding to cover the costs associated with natural disasters.**

For example, DGC's estimation of required financial resources for 2012 is around four times the executed budget of 2010 (Q.8.2 billion), including signed contracts for reconstruction works after Hurricane Agatha. Given Guatemala's vulnerability to natural disasters, investment needs in the transport sector are driven to a significant extent by damages caused by hurricanes, earthquakes and volcanic eruptions.

**ES.27. Budget overruns are common in road projects.**

Within DGC and COVIAL, it is general practice that contracts are extended in terms of time and cost increases. Overruns should be more the exception than the rule. The review undertaken by CoST in the baseline study found that among the 16 projects reviewed in 8 agencies, the most significant variations of works contracts were within DGC and COVIAL, with average overruns of 123 percent in time and 103 percent in cost.

3. See, for instance, Bowser and Mahal (2011).

4. Swiston & Barrot (2011).

## Recommendations on education, health, and road transport

### ES.28. **Better targeting of social spending is needed.**

The analysis suggests that public education and health spending does not benefit regions with the greatest need. While some education programs actually reach poor areas such as the school meal program, some others such as text books are concentrated in urban and semi-urban areas. Spending allocation is also carried out without considering student performance and educational outcomes, such as completions rates in 6th and 9th grades. Similarly, in the health sector, there is a high concentration of public expenditure in the departments of Guatemala, Sacatepéquez and Santa Rosa. In the case of the department of Guatemala, this has to do to some extent with the fact that the country's two largest hospitals are located there. It may also reflect the fact that health remains a centralized sector and some of its expenditures continue to be registered in the department of Guatemala (due to the location of the Ministry of Health and Public Assistance), even though the recipient or beneficiary department may be a different one. On the other hand, except for Quetzaltenango, less money per capita is allocated to departments in the southwest of the country. The lack of clear prioritization in the allocation of resources in the social sectors does not allow for a maximization of the benefits for the most vulnerable parts of the population.

### ES.29. **Monitoring and evaluation systems should be strengthened to facilitate deeper analysis of the determinants of sectoral outcomes.**

A key finding from the analysis is that there exist large disparities in spending performance in education across the territory. Disparities in the technical efficiency of public education spending exist even after controlling for a variety of socio-economic factors, suggesting that better data and more analysis would be needed to delve into the determinants of student achievement and their linkages to education spending at the municipal level. In the transport sector, the lack of outcome and output information at the municipal level represents a challenge for decision makers to adequately measure the impact of public investment in the sector. Systematic information is needed to allow making informed

decisions among programs and subprograms and among departments and municipalities in the country.

### ES.30. **Greater results orientation of the budget could help ensure that resource allocations are aligned with sectoral priorities.**

It appears as though inequities in resource allocations currently reinforce historical trends and existing endowments. Regional allocations of the health budget, for instance, have been based on the number of beds and health service entities in each location. As a result, the poorest regions – which tend to have fewer health facilities – receive less funds, regardless of demographic or epidemiologic needs.<sup>5</sup> The recent progress to pilot results-based budgeting in the Ministry of Health is promising and represents a step in the right direction.

### ES.31. **There are a number of options that could be analyzed in more detail to improve the condition of the road network that could also reduce the fiscal pressure for the sector.**

These options include (i) including private participation for the financing of new infrastructure (or significant work improvements) and charging user tolls; and (ii) combining rehabilitation and maintenance activities under performance-based multi-year contracts. In this context, the approval of the Law on Public-Private Partnerships in 2010 is an important step in the right direction, even if its implementation will require the approval of detailed implementing regulations, as well as extensive capacity building.

## D. CITIZEN SECURITY AND PUBLIC EXPENDITURES

### ES.32. **Crime and violence have become the most important destabilizing factor for political, social, and economic life in Guatemala.**

Estimates suggest that violence cost the country an estimated US\$2.4 billion, or 7.3 percent of GDP in 2005.<sup>6</sup> This figure represents more than double the damage caused by Hurricane Stan in the same year, and more than double the combined budget for the Ministries of Agriculture, Health and Education for 2006. The costs of crime and violence to the business sector represent a serious drag on growth and development: the 2011 Global Competitiveness Report ranked Guatemala as the worst

5. World Bank (2012).

6. Acevedo (2008).

performer, out of 142 countries, in terms of the costs that crime imposes on businesses.<sup>7</sup> However, these economic costs pale in comparison to the immeasurable human costs of Guatemala's violence. In a 2010 report on Central America, the World Bank estimates that the health costs, measured in Disability-Adjusted Life Years (DALYs), are around 1.43 percent of GDP, the second highest in the region after El Salvador.

**ES.33. Crime and violence in Guatemala is a multifaceted problem that calls for a comprehensive policy response given its multiple forms and presence across territories, demographic groups, and income levels.** In addition to being the country with the 7th highest homicide rate in the world, Guatemala is afflicted by many other forms of crime and violence, from domestic violence and femicides to extortions, kidnappings, armed robbery, and all sorts of illegal trafficking. While each type of event tends to be clustered in specific geographic areas of the country, when taken as a whole it is difficult to find places that are free of any form of violence. Similarly, while male youth tend to be particularly affected by homicides, women and other age groups are also affected by other forms of violence. Finally, while victimization tends to increase with income level, poor people who cannot afford private security often have their neighborhoods controlled by criminal gangs, and are subject to everyday forms of violence.

**ES.34. Compared to its Central American neighbors, Guatemala's security and justice expenditure is the second highest in terms of overall budget share, but the lowest in terms of GDP.** El Salvador leads on both metrics, spending more than 20 percent of its budget on security compared to Guatemala, Nicaragua and Honduras that spent between 10 and 15 percent. El Salvador spent about 3.5 percent of its GDP compared to 2.3 percent in Guatemala and 2.8 in Honduras.<sup>8</sup>

**ES.35. Governance institutions are being overwhelmed by the ability of criminal groups to infiltrate them.** Weak institutions have not been able to cope with external pressures brought by increased drug trafficking and this, combined with deep inequality and lack of opportunities for youth at risk and other

vulnerable groups, has produced the explosive situation that the country finds itself in.

**ES.36. A review of government policies, budgets, outcomes and outputs suggests the need to rethink the approach the government has been following so far.** Despite progress in some aspects or areas, overall, the government's response has been fragmented, discontinuous, and unbalanced. Confronting the challenge of criminal violence in Guatemala requires a comprehensive approach that addresses the multiple dimensions of the problem through prevention and law enforcement initiatives, coordinated by a clear authority within government, and with the capacity to oversee implementation of policies in a consistent manner.

#### Recommendations on citizen security

**ES.37. There is a need to boost resources along the security and justice value chain,** especially for: preventive programs and community policing; law enforcement's manpower and equipment; policing operations; improved access to justice; improved prosecutors office capabilities; and penitentiary and rehabilitation systems. Major rethinking is required to deal with the problem given the Guatemalan scarcity of resources.

**ES.38. Better coordination of prevention programs is also needed.** The Ministry of Interior (MOI) should develop a system to monitor the execution of all programs related to crime and violence prevention, including those implemented by other sectoral ministries. The government should create an inter-ministerial coordination mechanism to review this information and identify areas for performance improvement. A useful exercise for this group would be to assess whether the main risks related to crime and violence have a matching program or set of interventions to address them and the extent to which these programs are deployed in an integrated fashion in the hot spot communities that concentrate these risks. The government should also consider whether (i) it is desirable to give formal authority for coordinating interventions to one of the ministries, for instance, authorizing it to be

7. World Economic Forum (2011).

8. There is a slight discrepancy between UNDP's and our own calculations of the share of national budget that corresponds to security. This is probably due to the inclusion of some different programs in either process. As a share of GDP, however, the numbers coincide.

present in the decision making process and even resource allocation of other ministries' programs when they have an important citizen security function; and (ii) decide whether this role should be given to the Ministry of Interior.

**ES.39. Guatemala should invest in a second generation crime and violence information system.** This system should (a) capture the range of crime that goes unreported, (b) validate the data that is generated, (c) produce key descriptive information about the characteristics of the crime, and (d) feed all this data into a geo-referenced, user-friendly system that is useful for pro-active, results-oriented decision making on citizen security. Violence observatories are an institutional "technology" that has been proven useful to address this challenge. They usually combine a national level unit that works to coordinate with, and improve national government information systems with, a network of municipal observatories in hot spot municipalities that validate and use the data for local citizen security strategies. Key descriptive information needed for decision making include: type of incident (homicide, robbery, assault, car theft, rape, etc); date, time, day of the week, address of where incident takes place, neighborhood; victim and perpetrator information (name, age, sex, occupation, literacy level, home address); type of weapon and context of event (interpersonal violence, domestic violence, organized crime, gang related, confrontations with law enforcement); and relationship of perpetrator to victim. The objective information captured by government systems should be complemented with regular standardized surveys that produce subjective and situational information on victimization, perception of insecurity, violent attitudes, coping behaviors to reduce victimization, and urban and social characteristics of hot spot communities.

**ES.40. Guatemala should also strengthen its information system on the performance of security and justice institutions.** To assess the performance of citizen security institutions, government should build a core set of indicators for each of the pillars of the value chain (prevention, law enforcement, criminal investigation, criminal justice, penitentiary, rehabilitation). These indicators should serve to benchmark progress and ensure greater dialogue and coordination across the multiple actors involved in the citizen

security sector. Indicators could include: share of public expenditures per pillar; coverage in terms of number of personnel per capita assigned to each of the pillars, whether police, public prosecutors, public defendants, etc; managerial capabilities; recidivism rate; and citizen confidence in public institutions.

## *E. BUDGET PROCESS, PUBLIC FINANCIAL MANAGEMENT AND PROCUREMENT*

### *Budget Process and Public Financial Management*

**ES.41. Guatemala's budget process is characterized by the co-existence of good practices and vulnerabilities.** It is supported by detailed norms and regulations, an Access to Public Information Law and a good practice e-government system, the Integrated Financial Administration and Governmental Audit System (SIAF-SAG). Recent improvements to the SIAF, which supports the budget cycle, mean that the main PFM systems are now internally coherent, sophisticated and powerful in recording and integrating financial management information for the entire public sector. The SIAF provides timely, accurate, and comprehensive financial and, increasingly, performance data to officials and the public alike, and is a fundamental building block for the extension and consolidation of modern results informed budgeting within the context of multi-year framework.

**ES.42. Currently, annual budgets are formulated based on past allocations.** Traditional programs are not reassessed and revised, and an inertial budget execution has become common practice. Improved budget preparation would reduce the need to modify allocations during the year and also enhance the credibility of the PFM systems. In addition, more realistic income projections would facilitate budget and cash management.

**ES.43. An initiative to improve the budget formulation by revising the program structure of three pilot ministries (Health, Education, and Interior) has yielded promising results.** The progress achieved in the Ministry of Health shows that using a results-oriented approach is possible and useful. This approach links policy objectives with the allocation of available resources, and provides a medium-term horizon for

achieving strategic goals. Further, better estimations of unit costs would help monitor and evaluate the quality of expenditures by program and assess whether intended results have been achieved. The program revision also includes investment projects to improve infrastructure. Thus, whether a ministry executes its capital budget by itself or through a *fideicomiso* or NGO, this will make the public investment program more consistent with the sector's desired results and strategic goals.

**ES.44. Reallocations within the budget during execution are highly discretionary and significant in scope.**

While constrained by budget rigidities such as legislative earmarks and demands by public sector unions, the executive may regain control over budget execution through intra-institutional and inter-institutional budget transfers. In view of the country's exposure to natural disasters, imperfections in budget planning and potential fluctuations in its (limited) revenues requiring spending adjustments, this executive power is well warranted. However, budget transfers lend themselves to political bargaining, and make it difficult to follow through on the policy objectives supposedly represented by the budget.

**ES.45. The use of trust funds and non-governmental organizations (NGOs) has led to the circumvention of the Organic Budget and Procurement Laws, among others, and raises transparency concerns.**

While public trust funds (*fideicomisos*) are similar to private ones in that the Government (as *fideicomitente*) transfers funds and rights to the *fiduciario*, there are a number of important differences. First, public expenditure is generally required to follow public financial management and procurement procedures; however, these are not applied to public *fideicomisos* because they are regulated by private sector law. Similarly, monitoring and accountability mechanisms (including audits) that would generally apply to public spending are not applied equally to public *fideicomisos*. As a result, there is limited information on the execution of public spending through *fideicomisos*, compared to regular public spending carried out through the SICOIN system. Public contracting of NGOs is another commonly used vehicle to execute public resources outside of

the budget. Like *fideicomisos*, NGOs are not subject to regular budgetary oversight and controls.

**ES.46. The accumulation of payment arrears (“floating debt”) is a long-standing problem.** During budget execution sectors register commitments and accruals when the payment order is processed. However, if there are not enough available funds, sectors may not register the invoice in the SICOIN system, resulting in an arrear not registered in the SICOIN, which becomes floating debt. COVIAL generates floating debt in a different way, by the repeated extension of contracts associated with infrastructure projects without the medium-term budget credits. The system does not alert public officials of the creation of an illegal accrual, and the credibility of the PFM system is seriously undermined. A complete inventory of floating debt is not available.<sup>9</sup>

**Recommendations on public financial management**

**ES.47. In order to deter the generation of floating debt, it is essential to enforce the law and sanction public officials who do not comply with it.**

The existing CGC Law must be amended to include sanctions that are substantial and credible. That would also make public servants, NGOs' officials, and managers of *fideicomisos* more accountable. Also, due to the fact that Guatemala has been confronting natural disasters regularly, it is critical to better regulate the use of public funds and their accountability in those situations. In particular, it would be important to make *fideicomisos* subject to public procurement rules.

**ES.48. The Government should continue its efforts to build consensus around a public *fideicomisos* Law.**

Most of the regulations that might be included in the draft law are stated in the 2011 and 2012 budget laws. However, there is no guarantee that Congress will include such regulations in future years. A new Law would provide a permanent legal basis governing the management of *fideicomisos*.

**ES.49. Based on the experience with the pilot program in results-based budgeting, it is highly recommendable that the MOF drafts a new PFM leg-**

9. The Government has contracted an international audit firm to conduct a comprehensive audit of floating debt; however, the audit could only be completed for a portion of Central Government ministries.

**isolation to improve the PFM systems performance, drawing from the lessons learned from the pilots' experience.** An improved medium-term expenditure framework (MTEF) will support the revision of programs as well as all budget cycle processes.

### Procurement

ES.50. **There is a need to improve planning, consolidation, competition and contract management in order to enhance the efficiency and transparency of Guatemala's public procurement system.** Whilst Guatemala was a pioneer in the introduction of framework agreements in the Latin American region, it nevertheless failed to capitalize on the potential benefits generated by the use of this tool. Design flaws in the planning and operational model contributed to this. The decline of framework agreements is reflected in the decreasing use of this tool by public sector entities from a maximum of nearly 7 percent of contracts in 2009 to less than 0.04 percent in 2011.

ES.51. **There has been a growing tendency to either procure by exception or limited competitive method rather than through open tendering processes.** The use of exceptions is particularly prevalent in infrastructure, whilst direct procurement tends to be associated with goods and services. Likewise, there is a significant reduction in the use of open contracts; this reduction is accompanied by an increase in requested exceptions for the procurement of items outside the open contract.

ES.52. **In the area of infrastructure, one of the key deficiencies identified is the apparent lack of accountability in contract management.** It appears that, whilst the government captures the entire contract management data related to infrastructure projects, it does not use this data as a management tool. The review identified a large number of contracts with significant overruns, some of which were many times the originally contracted amount.

### Recommendations on procurement

ES.53. **In order for Guatemala to have a procurement system that delivers the government's investment program as well as the goods and services demanded by society, substantial reform is required**

**that shifts the objective of the procurement system from compliance with processes to compliance with outcomes.** It is important to note that shifting the focus to outcomes does not imply that compliance with procedures is not important; rather, it means that both outcomes and procedures will become measurable results.

ES.54. **By redesigning the operational model for framework agreements, the government could leverage its e-procurement platform, Guatecompras, to implement whole-of-government framework agreements for common use goods and services.** This would eliminate the use of direct contracting and exceptions for the procurement of common use goods and services, and thereby result in increased efficiency, reduced prices and increased transparency. This approach could also be applied to the procurement of pharmaceuticals.

ES.55. **A review of the significant cost overruns, especially in infrastructure, should be undertaken to identify their causes and terminate any contracts which should have been re-bid rather than extended.** Also, there is a need to implement stricter procedures in the contract management system to ensure that contracts cannot simply be extended or incur significant overruns without the proper public scrutiny. Another practice that should be avoided is the entering of contracts into the system *after* they have been complete (rather than when they are signed) only in order to make payments.

ES.56. **Another key area for reform is the development of a cadre of procurement specialists whose qualifications are founded on a competencies based system that is linked to career advancement as well as responsibility.** The adoption of such a certification system would ensure that public officials tasked with carrying out procurement activities are trained and thus knowledgeable on the application of a wide range of procurement methodologies. This initiative would also serve to create specialized units that would in turn have the skills and knowledge to address sector specific issues such as the procurement of pharmaceuticals, setting up and administering framework agreements, as well as complex infrastructure projects.



CHAPTER 1  
GUATEMALA'S DEVELOPMENT CHALLENGES AHEAD

## » A. Introduction

**1.1 While Guatemala has made tremendous strides in moving toward democracy and building institutions after a prolonged civil war, much remains to be done in generating the foundations for strong broad-based economic growth.** Since the signing of the Peace Accords in 1996, progress has been made in reducing poverty (especially in urban areas) and maintaining a stable macroeconomic environment. However, the country still ranks as one of the lowest in Latin America and the Caribbean (LAC) in terms of basic social indicators. Indeed, largely due to its historical legacy of conflict and exclusion, over half the population is below the poverty line and measures of inequality are higher than the regional average. According to the 2010 UNDP Human Development Report, Guatemala ranks among the bottom three positions in LAC, along with Nicaragua and Haiti, in the overall human development index, including infant mortality, maternal mortality, adult literacy, and net secondary enrollment.

**1.2 As Guatemala enters its fifth presidential cycle since the 1996 Peace Accords, the newly elected administration faces tremendous economic challenges.** Efforts during the previous administration to directly address poverty and improve education and health outcomes, particularly in the indigenous and rural areas, were intense, with tentative signs of success. However, these efforts, particularly the introduction and rapid expansion of the government's conditional cash transfer program (Mi Familia Progresiva, MiFaPro), also generated an added fiscal burden and much political controversy regarding transparency and social benefits.<sup>10</sup> Better monitoring and evaluation of all development programs is needed to provide the foundation for broad political support.

**1.3 This introductory chapter reviews Guatemala's development challenges.** The idea is to place Guatemala in its own historical context and determine how the economy has evolved over the last fifteen years since the Peace Accords, in what areas of development the country made progress, where the country lagged, and what are the key challenges for future development. Subsequent chapters will delve more deeply into these issues examining the efficiency of public expenditures, spending on citizen security, and public financial management and procurement.

10. While the direct cost of the conditional cash transfers is a modest 0.4 percent of GDP, the additional supply of education and health services have led to a larger increase in social spending as a share of GDP.

## B. HISTORICAL AND POLITICAL CONTEXT

**1.4 To understand why Guatemala has taken the development path that it has, it is important to look at the fundamental roots that may be underlying its development process.** Extractive colonial institutions and a radical liberal reform period in the 1800s contributed to weak institutions and property rights, particularly with respect to land and labor, which led to an exclusionary pattern of development. In the late 1800s and the first half of the 20th century, with the spread of coffee cultivation, the practice of expropriating land and requiring forced labor from indigenous communities accelerated. In turn, the pattern of large plantations owned by small elite and manned by subsistence-wage indigenous workers provided little incentive for land owners or the workers themselves to invest in human capital. Thus, investments in education for indigenous groups lagged far behind other countries in the region which relied on a small-holder model for developing their coffee sector (e.g., Costa Rica and Colombia). The situation was exacerbated by discriminatory policies which reserved education rights for “citizens”, a status not fully accorded to the indigenous or women until 1945.

**1.5 By 1960, when Guatemala’s civil war broke out, the country was lagging well behind comparable countries on virtually all key social indicators.** It was even faring worse than many much poorer neighbors (in GDP per capita terms) such as Nicaragua and Honduras. Guatemala’s civil war was one of the longest and bloodiest in Latin America. It is estimated that about 2 percent of the population (over 200,000 people) were killed or disappeared, over a million (close to 10 percent) were displaced and about 600 villages and communities completely destroyed. Indigenous communities bore the brunt of the violence, suffering the vast majority of casualties and damage or property loss. While it is impossible to quantify the full range of social and economic impact of the civil war, the Historical Clarification Commission estimated that during the 1980s alone, the costs of the war amounted to 15 months of production or 121 percent of 1990 GDP.

Some econometric analyses done by Bank staff indicate that had the war not occurred, per capita GDP would have been about 40 percent higher and poverty 12 percent lower by 2000.<sup>11</sup> Social indicators lagged even further behind growth, with Guatemala remaining among the worst performers in the region on most education and mortality measures.

**1.6 The signing of the Peace Accords in 1996, following a protracted negotiations process, marked a turning point in Guatemala’s development path.** Beyond formally ending the armed conflict and addressing related political issues, the Peace Accords identified an ambitious agenda for reconciliation and reincorporation of excluded groups, human development, sustainable economic development and modernization of the state and improved governance. Three cross-cutting themes were emphasized through the Accords: (i) the rights of indigenous communities; (ii) commitments regarding the rights and position of women, and (iii) a strengthening of social participation. Among the various accords concluded within the framework of the peace process, the Social and Agrarian Issues Accord (May 1996) established the overall development agenda, with stronger social orientation and a general goal of closing the huge gap between the rich and the poor. The Accord covered a range of issues including growth, tax revenues, public spending, education and health (each with monitorable targets).<sup>12</sup> It also emphasized broader citizen participation in development projects through the establishment of decentralized development councils. With respect to land, the Accord focused on market-assisted land distribution, creation of a Land Fund and improved land administration.

**1.7 However, Guatemala’s institutional environment continues to complicate the cooperation of political actors over time and thus the inter-temporal bargains<sup>13</sup> required to agree upon and sustain structural reforms.** Four key features particularly stand out: (i) mechanisms for the aggregation of individual and group interests into public policies which multiply the number of actors impacting the policy-making

11. López (2001).

12. See Chapter 2 for more information on these targets.

13. Inter-temporal reform bargaining refers to the idea that reforms frequently require the exchange of current actions or resources – such as legislative votes for a reform – for promises of future actions or resources – such as benefits accruing from a reform or concessions in other policy areas (see Inter-American Development Bank 2008).

process; (ii) informal rather than well-institutionalized arenas for political exchange; (iii) exceptionally short political time horizons; and (iv) lack of credible enforcement mechanisms for political and policy agreements. These four features in turn are a function of an inchoate party system as well as a judiciary and bureaucracy lacking capacity and autonomy.

### 1.8 **The inchoate political party system plays an important role in the weak institutional environment.**

Driven by the concurrence of a resource-rich private sector elite and the limited ability of citizens to act collectively, Guatemala's political party system is characterized by "high electoral volatility, severe party instability, weak links to society, ideological vagueness, limited territorial presence, lack of legitimacy and opaque financing mechanisms".<sup>14</sup> These weaknesses can be observed in multiple ways. Guatemala's party system undergoes average election-to-election shifts in votes of close to 50 percent – compared to a Central American average of 21 percent.<sup>15</sup> No governing party has ever secured re-election, political parties survive on average 7.6 years and more than 50 have been declared void since the advent of democratization.<sup>16</sup> As a result, the majority of elected legislators have no prior parliamentary experience. This compounds the weakness in technical capacity among members of Congress and limits the number of law initiatives emerging from Congress.

1.9 **Guatemala's party system is also the most fragmented in the region.** This stems in part from a practice of 'cross-voting' by citizens; reflecting low levels of trust in parties, the parliamentary vote increasingly differs from the presidential vote. As a result, all presidents since 2004 have headed minority governments.<sup>17</sup> Party fragmentation is, however, also a function of high levels of party defection. More than 25 percent of members of Congress switched parties each year over the last decade on average; in 2004 and 2007, this share even exceeded 40 percent. Party defection in turn is related to the non-ideological

nature of parties and party membership; survey data indicates that partisan allies in Guatemala hold as many different opinions as they share on key socio-economic and political issues.<sup>18</sup> Citizen identification with parties is impaired – with Guatemala ranking third from the bottom in Latin America – and the legislative branch enjoys extraordinarily low levels of legitimacy – citizens rank political parties as the least legitimate of all Guatemalan public institutions.<sup>19</sup>

1.10 **Political parties tend to be electoral vehicles rather than parties proper.**<sup>20</sup> Parties are linked to a popular leader and (frequently) founder; once the leader leaves office, the party disintegrates or is taken over by factions. Electoral rules prohibiting presidential re-elections reinforce this effect and the concomitant brief political time horizons. As such, parties are unable to mediate between society and the state. Rather than fulfilling programmatic parties' functions such as representation and interest aggregation, parties are vehicles for traditional forms of representation in which access to the state is a function of resources. With underprivileged sectors of society deprived of institutionalized political parties as a key means to overcome collective action problems<sup>21</sup>, access to the state is monopolized by those who can afford it.

## C. ECONOMIC DEVELOPMENT CHALLENGES

### *Poverty and Inequality*

1.11 **Largely due to Guatemala's historical legacy, poverty and inequality are high and social indicators (health, nutrition, education) are low compared to countries of similar income.** According to the 2010 UNDP Human Development Report, Guatemala ranks among the bottom three positions in Latin America, along with Nicaragua and Haiti, in the overall human development index, including infant mortality, maternal mortality, adult literacy, and net secondary enrollment. Guatemala also ranks low on social indicators within Central America, according to the World Devel-

14. ASIES (2009).

15. Achard and Gonzalez (2004).

16. Insight (2011); Menocal and Calvaruso (2008).

17. Cabrera (2011).

18. García Díez (2001).

19. LAPOP (2011).

20. Sánchez (2008).

21. See Keefer (2011).

TABLE 1.1: CENTRAL AMERICA: KEY SOCIAL INDICATORS\*

	Average								
	GTM	SLV	HND	NIC	CRI	PAN	CA	LAC	LMICs
<b>Population Growth</b>	2,5	0,5	2	1,4	1,3	1,6	1,6	1,1	1,5
<b>Education</b>									
Literacy rate, adult total (% of people ages 15 and above)	76	84	84	78	96	94	85	n.a.	71
School enrollment, primary (% net)	97	93	96	92	90	98	94	94	85
School enrollment, secondary (% net)	40	55	20	46	46	69	46	73	50
<b>Health</b>									
Life expectancy at birth, total (years)	71	72	73	73	79	76	74	74	65
Maternal mortality ratio (modeled estimate, per 100,000 live births)	110	110	110	100	44	71	91	85	300
Mortality rate, infant (per 1,000 live births)	25	14	20	23	9	17	18	19	52
Malnutrition prevalence, weight for age (% of children under 5)	19	6	9	4	5	6	8	4	24

\*Data for the most recent year available. Source: World Development Indicators and national sources.

opment Indicators (Table 1.1). Though social indicators remain low, some improvements were made in recent years, particularly in the overall poverty rate.

**1.12 There were important differences in poverty outcomes by regions and socio-economic groups within Guatemala in recent years.** Overall poverty fell from 56 to 51 percent between 2000 and 2006, or 0.85 points per year, while extreme poverty remained nearly unchanged at slightly above 15 percent. Much of the decrease in moderate poverty was due to economic growth and the increase in wage remittances, particularly from the United States, which in 2006 rose to over 12 percent of GDP. However, as a result of the global economic crisis, moderate poverty crept up again to 54 percent by 2011, while extreme poverty fell to 13 percent. Regionally, extreme poverty is most prominent in the North and Northeast, with rates of over 20 percent; while poverty rates tends to be lowest in the Metropolitan and Central regions. Regional differences in labor productivity, a function of infrastructure, education, and other factors, as well as climate conditions help explain much of these differences in poverty outcomes. Poverty and inequality remain concentrated in rural areas and among indigenous groups. The pace of improvements in social in-

dicators in rural areas has been slower than progress country-wide.

**1.13 Indigenous people suffer from the highest poverty rates and have the lowest social indicators.** According to the 2011 Living Standards Measurement Survey (ENCOVI), the incidence of poverty for indigenous households is around 56 percent, significantly higher than the non-indigenous rate of 44 percent. The gap in health and nutrition is even more worrisome. Chronic malnutrition (percent of children less than 5 years of age with stunted growth) is about 65.9 percent for indigenous children compared to 36.2 percent for non-indigenous children.<sup>22</sup> There are also differences among various indigenous groups. For example, the Garífunas and Sakapultekos have on average about six years of schooling, while the Chuj and the Ch'orti' have less than two years.

**1.14 Indigenous women face particular constraints.** The 62 percent illiteracy rate for indigenous women is extremely high compared to 24 percent for non-indigenous women, and 43 percent for indigenous men. There is also evidence that indigenous women are disadvantaged in the labor market; their labor market participation rate is almost half that of men (i.e.,

22. UNICEF and ICEFI (2011).

35 percent for indigenous women versus 67 percent for indigenous men). When indigenous women do participate in the labor force their salaries tend to be 53 percent less than their indigenous male counterparts, even accounting for educational background and job activity.

**1.15 Though much remains to be done to improve social indicators for all groups, Guatemala has shown important gains.** Recent advances, even if small, suggest that the Government has been able to improve outcomes. For example, primary enrollment rates rose from 79.9 to 95 percent and infant mortality rates declined from 39 to 33 percent during the same period. The 2008 Poverty Assessment benchmarked these rates of change to historical rates of change for all countries globally over the last 25 years, and Guatemala's performance compares favorably. Many improvements in Guatemala were better than 80 percent of all the advances recorded. The global economic crisis, however, may have placed some of these advances at risk.

**1.16 Poverty reduction programs are constrained by budget rigidities and low social spending as percentage of GDP.** About 88 percent of the budget is earmarked by law. Social spending, although increasing in recent years—particularly due to the MiFaPro Program that is administered by the Ministry of Education—as a share of GDP is relatively low (8 percent in 2010) compared to the rest of Latin America (see Chapter 3 for more detail).

**1.17 An assessment of progress on the Millennium Development Goals (MDGs), undertaken jointly with the Government, the IDB and the United Nations, shows tentative progress on meeting several goals except for extreme poverty and reducing the spread of HIV/AIDS.** The assessment concluded that to reach most of the 2015 goals Guatemala needs to grow faster and in a more inclusive and sustainable way. Under the best economic growth scenario, which implies an average growth rate of 5 percent combined with additional social and redistribution policies costing an estimated 0.6 percent of GDP, the goals on poverty, child malnutrition, literacy, gender and infant mortality

could be met. However, reaching maternal mortality goals and reducing the spread of HIV would remain a challenge. Under a more conservative scenario that assumes an average economic growth rate of three percent and policies costing 1.1 percent of GDP, only the poverty goal could be achieved. The Bank's 2005 Country Economic Memorandum (CEM) indicates that relying exclusively on growth to achieve the MDG of cutting poverty by half by 2015 would require an average annual per capita growth rate of 2.4 percent, a goal that Guatemala has infrequently achieved.<sup>23</sup>

### *Growth and Stability*

**1.18 Over the past two decades, economic growth has been relatively stable but weak.** Since 1990, real GDP growth per capita in Guatemala has averaged about 1.2 percent, about three-quarters of a percentage point less than the rest of Latin America and the Caribbean and significantly less than other middle-income countries. Despite weak growth, volatility was less than half the regional average and experienced less of a decline compared to the rest of Latin America during the recent crisis.<sup>24</sup> Much of Guatemala's relative stability can be attributed to prudent macroeconomic policies that have kept inflation and public debt manageable, while avoiding fiscal imbalances that plagued much of the region.

**1.19 Sound macroeconomic management has allowed Guatemala to ensure macroeconomic stability, although fiscal balances have shown some strains as a result of the impact of the global economic crisis.** Despite Guatemala's susceptibility to natural disasters (e.g. Hurricane Stan in 2005 and volcanic activity and multiple episodes of flooding in 2010), financial market volatility (e.g., collapse and resolution of two commercial banks in 2006-2007), and terms of trade shocks (e.g., the coffee crisis in 2003-2004), the economy grew 4.5 percent on average from 2004 to 2007, reaching 6.3 percent in 2007, its highest growth in three decades. While the global financial crisis in 2008-09 and the adverse external environment slowed growth substantially, falling to 0.5 percent in 2009, it never turned negative and rebounded to 2.8 percent in 2010. Much of the credit to weather-

23. World Bank (2005b).

24. Volatility measured by the coefficient of variation of annual real GDP growth.

ing the external environment during the crisis can be attributed to prudent macroeconomic policy prior to the crisis and reforms to fortify the financial sector. Although the country is still relatively well positioned on the fiscal front, the 2009 economic downturn and increased spending have begun to put some strain on government accounts (Table 1.2; see Chapter 2 for more details).

**1.20 To accelerate broad-based growth, Guatemala will need to improve the investment climate for business, increase educational attainment and make progress on governance, transparency and security.** A challenge in meeting these goals will be to expand fiscal space to support priority public investment and social spending. Since the 1996 Peace Accords, Guatemala's target has been to raise tax revenues to 13.2 percent of GDP.<sup>25</sup> Despite significant improvements in tax administration, including the passage of Anti-Tax Evasion Laws<sup>26</sup> (I and II in 2006 and 2012, respectively), further progress has been modest and political opposition and unfavorable constitutional court rulings on taxes have kept tax collections as a share of GDP relatively flat and below the Peace Accords target. Guatemala's light tax burden, which at 11.0 percent in 2011 is among the lowest in the region, does not provide sufficient fiscal space to address social needs.

### *Investment Climate, Trade and Finance*

**1.21 Guatemala has made progress in improving its investment climate although reforms have slowed.** According to the Bank's 2011 *Doing Business* Report, while Guatemala still ranks low in business climate indicators (101th out of 183 countries) it has improved since 2006 when it ranked 128th out of 155 countries. In 2006 and 2007, Guatemala was among the top reformers worldwide in *Doing Business* indicators, and perceptions of the business environment improved substantially. In addition, in 2006 Guatemala implemented the Dominican Republic-Central America Free Trade Agreement with the United States (DR-CAFTA) that helped secure a more open trading environment between Central America and the United

States. Despite some retrenchment during the global crisis, foreign direct investment (FDI) increased nearly threefold from 2003 to 2010. Still, challenges remain, and the 2008 Guatemala Investment Climate Assessment highlighted corruption, energy supplies and crime as the greatest obstacles faced by business.<sup>27</sup>

**1.22 DR-CAFTA and other free trade initiatives appear to have helped to boost trade, but extending these benefits to the poor will require a broad-based development agenda.** Since DR-CAFTA came into effect, exports and imports have grown more rapidly than in previous years, despite the downturn in 2009, but it is still too early to determine whether these gains can be attributed solely to the free trade agreement or to other favorable external demand factors. Global experience suggests that the extra growth and poverty reduction that Guatemala extracts from its free trade initiatives will largely depend on the efficiency and competitiveness of its economy. Competitiveness reflects many factors, including labor force education and flexibility, reliability of energy sources, good transportation linkages within the country, port facilities, and the capacity of the legal and judicial system to enforce contracts and facilitate business activity, among others.

**1.23 Financial sector legal and regulatory reforms implemented since 2000 have improved banks' solvency and resilience to market volatility, but lack of access to finance remains a major issue for the financial sector.** Domestic credit to the private sector increased from around 20 percent of GDP in 2000 to 28.1 percent in 2006, but fell to 23.4 in 2010. Despite the modest improvement since 2000, these figures remain low compared to the Central American average (i.e., 47.5 percent in 2010) and interest rate spreads are also relatively high. The problem is especially serious for smaller firms, whose access to credit is even more restricted. Currently, a wide range of mostly non-regulated financial entities service clients that cannot access the banking system. In this context, a stronger regulatory and supervisory framework would help reduce risk and deepen the development of the financial system.

25. 12 percent using GDP base year 1958.

26. One major result of the Anti-Evasion Law I was the significant reduction of VAT tax evasion, estimated to have fallen from 34.4 percent in 2004 to 26.1 percent in 2007. Source: SAT.

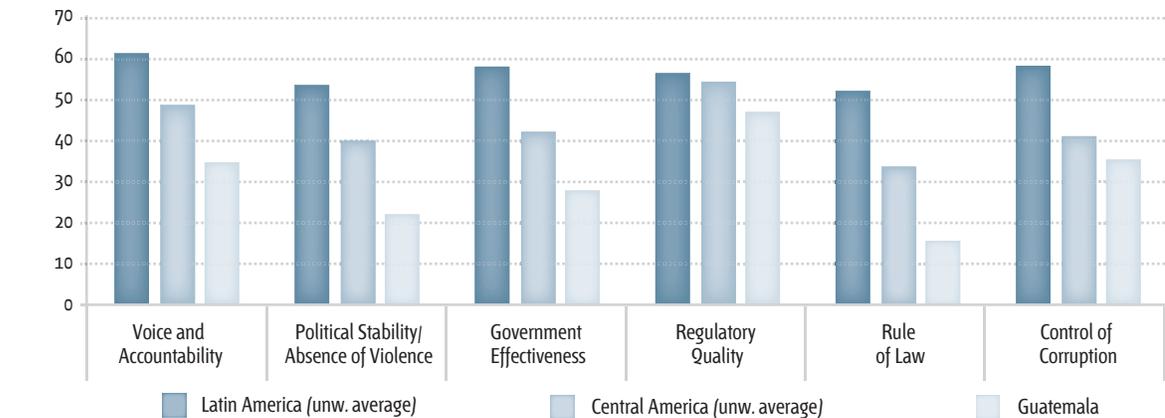
27. The second Investment Climate Assessment for Guatemala was completed in 2008 based on 2007 survey data and allows for a comparison with 2004 data. The survey interviewed more than 500 firms from the manufacturing, services and construction sectors.

**TABLE 1.2: KEY MACROECONOMIC INDICATORS**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>National accounts and prices</b>									
Real GDP (% change)	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.9	3.9
Real GDP per capita (% change)	0.0	0.6	0.7	2.8	3.7	0.8	-1.9	0.4	1.3
Inflation rate (eop CPI, % change)	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4	6.2
Real effective exchange rate (% change) <sup>1</sup>	-1.5	2.0	7.7	3.0	-0.4	7.5	-3.0	1.1	3.6
<b>Central government finance (% of GDP)</b>									
Total revenues	12.5	12.3	12.0	12.7	12.8	12.0	11.1	11.3	11.8
o/w tax revenues	11.7	11.5	11.2	11.9	12.1	11.3	10.3	10.5	11.0
Total expenditures	15.1	13.4	13.7	14.7	14.3	13.6	14.2	14.5	14.7
Current expenditures	10.1	9.2	9.1	9.4	9.5	9.2	10.1	10.4	10.6
o/w wages and salaries	3.9	3.6	3.3	3.3	3.1	3.1	3.6	3.8	3.9
Capital expenditures	5.1	4.3	4.6	5.3	4.8	4.5	4.1	4.1	4.0
Overall balance	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.1	-3.3	-2.8
Primary balance	-1.3	0.3	-0.3	-0.6	0.0	-0.3	-1.7	-1.8	-1.3
Total public sector debt	21.2	22.2	21.1	21.9	21.6	20.1	23.0	24.5	24.3
External	14.9	15.5	13.2	13.1	12.4	11.2	13.1	13.5	12.0
Domestic	6.3	6.7	7.9	8.8	9.2	8.9	9.9	11.0	12.3
<b>Balance of payments (% of GDP)</b>									
Current account balance	-4.7	-4.9	-4.6	-5.0	-5.2	-4.3	0.0	-1.5	-3.1
Trade balance	-13.5	-15.2	-15.4	-16.1	-16.1	-14.2	-8.9	-10.3	-10.6
Exports of goods	20.7	21.3	20.1	20.1	20.5	20.0	19.3	20.6	22.4
Imports of goods	34.2	36.5	35.5	36.2	36.6	34.3	28.2	31.0	33.0
Remittances	9.7	10.9	11.2	12.2	12.3	11.3	10.5	10.1	9.4
Foreign direct investment	1.0	1.1	1.7	1.8	2.1	1.9	1.5	1.9	2.1
<b>Monetary sector</b>									
Credit to private sector (annual % change)	9.0	12.2	21.4	29.2	26.0	11.0	1.1	5.7	14.1
Lending interest rate (annual average, %)	15.0	13.8	13.0	12.8	12.8	13.4	13.8	13.3	13.5
Nominal exchange rate (average, Q./US\$)	7.9	7.9	7.6	7.6	7.7	7.6	8.2	8.0	7.8
<b>Memorandum items</b>									
GDP at current prices (Q. billions)	174.0	190.4	207.7	229.8	261.8	295.9	308.0	331.9	365.8
GDP at current prices (Q. billions)	21.9	24.0	27.2	30.2	34.1	39.1	37.7	41.4	47.0

\*Preliminary. Source: Central Bank of Guatemala, Ministry of Finance and IMF.

FIGURE 1.1: GOVERNANCE INDICATORS FOR GUATEMALA (PERCENTILE RANK 0-100)



Source: World Bank governance indicators (2010).

### Governance and Transparency

**1.24 Despite efforts in recent years to improve governance and strengthen institutions, public perceptions and measures of governance remain low.** Among World Bank governance indicators, *regulatory quality* has shown some improvement, but most indicators have not changed much in recent years and the *rule of law* remains one of the most important challenges as it falls significantly below averages for Latin America and countries with similar income (Figure 1.1). Increasing crime and violence and a growing sense of impunity has contributed to the decline in governance indicators. In an effort to fight impunity in the country, in 2007 Congress approved the creation of the International Commission against Impunity (*Comisión Internacional Contra la Impunidad en Guatemala*, CICIG). The commission's efforts resulted in important progress towards improving governance. This was done working in close collaboration with the judicial, legislative and executive branches, and the UN High Commissioner for Human Rights. Nonetheless, recent gains remain at risk and the government will need to consolidate advances with institutional reform, anti-corruption measures, vetting mechanisms for government officials as well as broader political participation.

**1.25 Guatemala made progress in fiscal transparency, but gains will need to be consolidated.** The implementation of the integrated financial management system (*Sistema Integrado de Administración Financiera*, SIAF), which was built upon a good normative framework and a modern technological platform, contributed to efficiency in financial transactions and the production of timely, transparent information on most government finances. Adherence to the system's norms and usage, however, will have to be strengthened if financial progress on management is to be maintained as there are only weak mechanisms penalizing transactions that are executed outside the system. Under recent fiscal pressures some ministries have executed contracts without funding, leading to unapproved and unrecorded payment arrears.

**1.26 Guatemala's transparency and anti-corruption agenda is one the Government's main priorities.** There have been efforts to improve transparency of procurement, such as the introduction of the e-procurement platform (Guatecompras), and a new access to information law was implemented in April 2009. It is now more difficult to hide misallocation of resources from public scrutiny.<sup>28</sup> Indeed, many more reports of poor government procurement are coming to light precisely because of greater transparency. Guatemala

27. La segunda Evaluación del Clima de Inversiones para Guatemala fue completada en 2008 basada en una encuesta realizada con datos de 2007 y permite una comparación con la información de 2004. La encuesta entrevistó a más de 500 firmas de los sectores de manufactura, servicios y construcción.

28. For instance, detailed budget data for the central and municipal governments is available through the web-based SICOIN portal.

was selected by the World Bank as a C-GAC (Country Governance and Anti-Corruption) pilot country, and the World Bank and other International Organizations have been providing support to this agenda. Main C-GAC actions include: (i) activities to reduce the risk of corruption and enhance transparency in the conditional cash transfer (CCT) program; (ii) assessment of the “Internal Audit Function” core responsibilities of the executive branch; (iii) support to create the Vice Minister of Finance for Transparency; and (iv) implementation of SEPA, the *Sistema de Ejecución de Planes de Adquisiciones*. Civil society organizations and the media are also tapping into publicly available information for monitoring and social auditing of public management.

**1.27 Violence has risen in recent years, with heightened impact on citizens and businesses.** Crime and violence are now recognized as serious economic and social problems with severe economic and social costs. High crime rates directly affect human welfare in the short run, and exert long-run effects on economic growth and social development. Today, crime and violence in Guatemala are driven not only by persistent inequality and lack of opportunities, but also by external sources of stress (such as increased drug trafficking) and by the growing state capture by criminal groups. Crime and violence drives away private investment, diverts resources from productive activities to crime prevention, discourages investment in human capital, and disrupts the functioning of public and private institutions. According to Guatemala’s 2006 Enterprise Survey, security costs and direct losses due to crime averaged some 3.9 percent of firm sales, compared to 2.8 percent for the LAC region as a whole.<sup>29</sup> Not only does this have an adverse impact on investment and growth, but it also generates low public confidence in the criminal justice system.

---

29. World Bank (2008).



CHAPTER 2  
OVERVIEW OF PUBLIC FINANCES

## » A. Introduction

**2.1 In Guatemala, there has long been a preference for a small government, which levies a minimum of taxes on its citizens and, in return, provides a limited amount of public services.** On the one hand, this meant that the presence of the state, especially in more remote areas, was minimal, and marginalized and poorer groups had virtually no access to public services. Even today, this long-standing lack of access is reflected in low human development outcomes, especially among indigenous groups. On the other hand, the spending restraint imposed by this preference for a small government enabled successive administrations to pursue conservative fiscal policies, resulting in low fiscal deficits and modest levels of public debt. In a region that has traditionally struggled with recurring fiscal crises, this relative fiscal stability has been a strong feature of economic management in Guatemala.

**2.2 However, the civil war brought issues of marginalization and widespread poverty to the forefront.** In fact, the commitments made in the 1996 Peace Accords called for a stronger role of the state in neglected areas and increased expenditure, especially in the social sectors. Among other targets, the Peace Accords foresaw an increase in spending on education and health, housing and justice, to be financed by a gradual increase in tax revenues.

**2.3 In the decade and a half since the Peace Accords, both tax revenue and expenditure have increased, albeit not at the pace foreseen in the agreements.** Even in the absence of a major overhaul of its tax system and despite a gradual decline in import tariffs resulting from trade liberalization and regional integration, Guatemala was able to gradually raise its tax intake thanks to incremental tax policy measures and improvements in tax administration: the tax to GDP ratio increased from 8.8 percent in 1995 to 11 percent in 2011. This increase was accompanied by an expansion in spending to meet the commitments of the Peace Accords: total central government expenditure increased from 10.3 percent to 14.6 percent in the same period, with the social sectors accounting for a significant share of this increase.

**2.4 Despite this shift, Guatemala is still among the countries in the region with the lowest tax revenues, and the lowest per capita spending on the social sectors.** At around 11 percent of GDP, Guatemala's tax-to-GDP ratio is well below the Central American average of 13.3 percent (Table 2.1), and far lower than the average for all of Latin America (19.2 percent).<sup>30</sup> While other countries with low tax-to-GDP ratios, including Mexico and Panama, have significant non-tax revenue sources, Guatemala does not. As a result, total central government revenues have been below 13 percent of GDP in the past decade. This low level of resources is reflected in the limited public expenditures, with Guatemala occupying the bottom position in most international comparisons.

**2.5 This chapter provides an overview of the underlying trends in Guatemala's fiscal accounts.** Section B provides an analysis of public revenues, with a focus on the tax system and the reforms recently approved by Congress. Section C presents a general overview of public expenditures, and Section D touches briefly on issues related to the sustainability of Guatemala's public debt.

**TABLE 2.1: CENTRAL AMERICA CENTRAL GOVERNMENT REVENUES (% OF GDP)**

		2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Costa Rica</b>	Total Revenues	13.4	13.3	13.9	13.6	13.9	14.2	15.5	15.9	14.1
	Tax Revenues	13.2	13.2	13.3	13.3	13.6	14.0	15.2	15.6	13.8
<b>El Salvador</b>	Total Revenues	11.9	12.5	13.2	13.3	13.4	14.3	14.6	14.7	13.5
	Tax Revenues	10.5	11.1	11.5	11.5	12.4	13.3	13.4	13.1	12.4
<b>Honduras</b>	Total Revenues	16.7	16.4	16.5	17.2	17.6	18.1	19.1	19.7	17.4
	Tax Revenues	13.6	13.3	13.7	14.5	14.5	15.2	16.3	16.0	14.4
<b>Guatemala</b>	Total Revenues	12.4	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.1
	Tax Revenues	10.8	11.9	11.7	11.5	11.2	11.9	12.1	11.3	10.3
<b>Nicaragua</b>	Total Revenues	16.2	17.6	19.7	20.5	21.4	23.0	23.7	22.3	21.5
	Tax Revenues	12.7	13.5	15.2	15.8	16.7	17.7	18.4	18.0	17.7
<b>Panama</b>	Total Revenues	17.7	16.8	15.4	14.4	15.2	18.6	19.2	19.7	18.3
	Tax Revenues	8.8	8.6	8.7	8.5	8.7	10.3	10.6	10.5	10.9

Sources: National authorities for Guatemala and CEPAL statistics for other countries.

30. OCDE (2011).

## B. STRUCTURE AND PERFORMANCE OF REVENUES

### Guatemala's tax system

2.6 **Apart from the low tax intake, two other features of Guatemala's tax regime have historically stood out: (i) its reliance on indirect taxes; and (ii) the incentives it provides for tax avoidance.** First, the value-added tax (VAT) generates close to 50 percent of total tax revenue. The intake from direct taxes – between 24.5 and 30.6 percent of total tax revenues in the last decade – is among the lowest in the region.<sup>31</sup> Second, the tax regime is particularistic. Different rates are applied to income derived from different sources; tax planning to minimize obligations is thus widespread. This is complemented by numerous tax exemptions. Finally, corruption scandals in tax collection and public expenditures have contributed to a culture of tax avoidance, which further complicates enforcement of the formal tax regime.

2.7 **Guatemala's tax system has retained these fundamental characteristics through several reform waves.** As early as in the 1950s, tax reforms were advocated, in particular a progressive income tax.<sup>32</sup> From the 1960s onwards, a tax reform commission allowed for the deliberation of reforms between governments and private sector organizations, including the influential Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (*Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras*, CACIF). Since the advent of democratization, more than 130 fiscal reform laws have been passed (see Box 2.1 for an overview of the most important reform initiatives). Nonetheless, tax collection has only seen a moderate improvement, rising from 8.2 percent of GDP in 1992 to 11 percent in 2011.

2.8 **The series of piecemeal reforms and modest revenue expansion has been driven by the concur-**

**rence of three factors: (i) a cycle of temporary taxes, (ii) amplifications of tax incentives and exemptions, and (iii) improvements in tax administration and combating tax evasion.** The cyclicity of temporary reforms stems from the repeated introduction of fiscal reforms in the early years of a presidential mandate, often as a response to budgetary and fiscal crises. These ad hoc reforms tend to introduce temporary taxes which reach their time limit or are rolled back at the end of a presidential mandate. In addition, tax policy reforms are frequently challenged in the constitutional court and subsequently reversed (Table 2.2).<sup>35</sup> Incoming presidents thus face fiscal difficulties and the need to introduce short-term fixes. This cyclical movement of temporary taxes has been paralleled by sector-specific laws amplifying exceptions and weakening progressivity. However, over the last two decades reforms were also paralleled by a major transformation of the tax administration. This transformation has been a key driver behind the incremental (but not necessarily steady) expansion of the country's tax intake – without, however, allowing for more structural change of the country's small-government paradigm.<sup>36</sup>

### Revenue structure

2.9 **Despite the lack of comprehensive reforms, the structure of Guatemala's tax revenues has changed significantly in the past 15 years.** The liberalization of trade through regional integration and, more recently, the DR-CAFTA agreement with the United States, has resulted in a significant loss in revenues from import tariffs. In 1995, tariff revenue accounted for 24 percent of the total tax intake, falling to 8 percent in 2007 (when the DR-CAFTA agreement came into effect) and to 6 percent in 2011. As a share of GDP, tariff revenue fell from 2.1 percent of GDP in 1995 to 0.7 percent in 2011. This development was accompanied by a gradual strengthening in the administration of domestic taxes, as well as incremental reforms in tax policy, which especially strengthened VAT collections.

31. Barreix, Bes and Roca (2009).

32. ICEFI (2007).

33. Schneider (en impresión)

34. Schneider (en impresión)

35. Vague language and strong property rights protection in the 1985 Constitution renders virtually any fiscal reform vulnerable to legal challenge. In particular, the Constitution prohibits double and confiscatory taxation and limits fiscal authority. The vote of three (out of 5) judges on the Constitutional Court is sufficient to invalidate a reform. Between 1988 and 2009, 187 constitutional appeals were brought against fiscal reforms, in particular related to income taxes (22 percent) and beverage taxes (22 percent). Almost half of these appeals were successful. See ICEFI (2007b) and Mendoza (2010).

36. Schneider (in press).

### Box 2.1: A SHORT HISTORY OF FISCAL REFORMS POST-CIVIL WAR

Concluding twelve years of negotiations, the signing of the 1996 Peace Accords placed fiscal reform at the forefront of development priorities to tackle. While progress in raising tax revenues was made in the 1990s, including through the creation of a Superintendence of Tax Administration (SAT) in 1998, advances fell short of the established target. In response, the Commission for the Accompaniment of the Peace Accords formed a Preparatory Commission tasked with the preparation of a Fiscal Pact – in essence a political strategy to impulse the fulfillment of the fiscal elements of the Peace Accords. Its preparation was accompanied in 1999 by broad-based consultations – at which more than 120 organizations presented 47 written proposals – and capacity building of civil society in fiscal issues throughout the territory, with a view to reducing the knowledge asymmetry traditionally characterizing fiscal policy. This process led to the juxtaposition of CACIF and the Collective of Social Organizations (COS) at the core of the negotiations (ASIES 2005). In May 2000, the Fiscal Pact was signed by presidents of the three branches of government and over 100 organizations, including private sector associations, unions, indigenous and peasant organizations, religious groups and universities. Next to short-term objectives, the Pact laid out medium- and long-term principles for not only tax reforms but public finance more generally, including reforms of public expenditures, tax administration, debt management, transparency and decentralization (Fuentes and Cabrera 2006). This was followed in June 2000 by a political accord between CACIF and the COS about a specific fiscal reform proposal to be approved by Congress. In addition to public expenditure targets, the accord included increases to the VAT (from 10 to 12 percent) and maximum personal income taxes (from 25 to 31 percent), the introduction of new taxes such as an alcohol tax, revisions of tax exemptions and incentives, and measures to strengthen tax administration and combat tax evasion (Fuentes and Cabrera 2005). Rather than seizing this window of opportunity to approve a fiscal reform at little political cost, however, the recently elected governing party *Frente Republicano Guatemalteco* (FRG) of President Portillo chose to reject the Fiscal Pact on the grounds that it had not participated in its negotiations. Instead, it used its legislative majority to pass, without much consultation, in a piecemeal fashion modifications to the VAT, income and business taxes, among others. In this manner, the Portillo Government polarized the consensual climate created by the Pact negotiations. In conjunction with perceptions of corruption and authoritarianism, this led to a widespread backlash against the Government's fiscal reforms, including through business strikes, media campaigns against the FRG and, in part co-opted by the private sector, civil society protests. Private sector appeals to the Constitutional Court subsequently led to the cancellation of several of the approved taxes.

The Fiscal Pact as a political strategy was subsequently picked up by President Berger (2004–08), albeit in a diluted manner. A Technical Fiscal Pact Commission was entrusted with developing a reform to respond to an imminent fiscal crisis, since a judicial repeal of tax reforms passed under the FRG had cut revenues by US\$256 million. Despite civil society opposition to the Commission – based on distrust of the strong government-private sector ties – these ties coupled with the crisis allowed for passage of a temporary income tax (IETAAP). The Berger administration also successfully passed an anti-evasion law in 2006 which strengthened the SAT, in particular regarding VAT collection. While attracting little attention, the reforms helped reduce VAT evasion and contributed – jointly with an economic upturn – to an increase in tax revenues to over 12 percent in 2007 – a first in Guatemala's history (Schneider in press).

Source: Schuster (2011).

The VAT share in total tax revenues increased from 36 percent in 1995 to 48 percent in 2011, replacing some of the revenue that was previously generated by import tariffs (Figure 2.1). However, VAT revenues remain heavily reliant on imports, which account for roughly 60 percent of total VAT collections.

**2.10 All the while, revenue from direct taxes increased only slightly, with the share of income taxes rising from 20 to 25 percent.** Income tax collections rely heavily on firms rather than individuals: corpora-

tions account for 85 percent of income tax receipts. This is partly due to the fact that the tax base for the personal income tax is relatively small and consists primarily of employees in the formal sector, with little income from self-employed professionals and other sources. While this problem is endemic in Latin America – estimates suggest that only 10 percent of the economically active population in the region is captured by the personal income tax<sup>37</sup> – it is particularly pronounced in Guatemala. In the last decade, collections from the personal income tax increased from 0.2

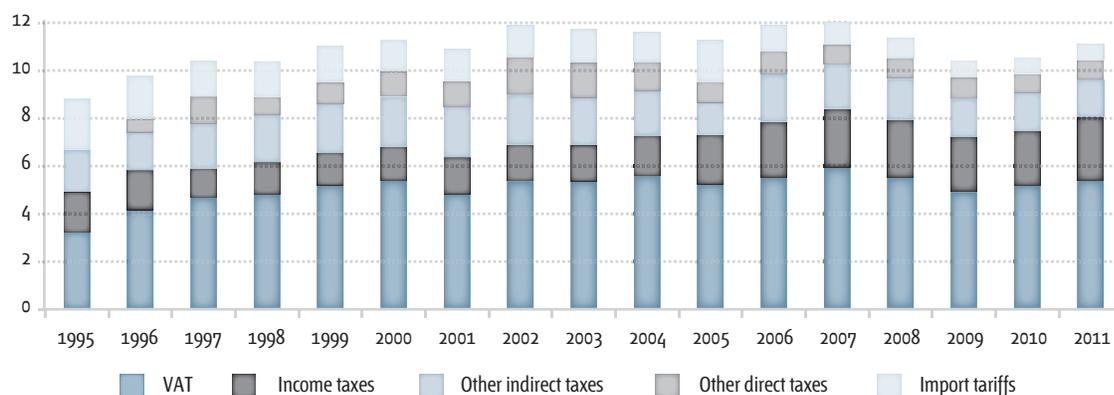
37. Gomez Sabaini & Jimenez (2011).

**TABLE 2.2: REVENUE IMPACT OF TAX REFORMS AND REVERSALS BY THE CONSTITUTIONAL COURT (2002-07, Q. MILLION)**

	2002	2003	2004	2005	2006	2007
Reduction in import tariffs	93	-174	-73	1,027	-143	-562
Changes in income taxes	927	-98	-516	263	290	-167
Changes in VAT	914	-19	-9	56	238	1,625
Changes in other taxes	192	-356	-431	-1,396		
<b>TOTAL</b>	<b>2,126</b>	<b>-647</b>	<b>-1,029</b>	<b>-50</b>	<b>385</b>	<b>896</b>
% of GDP	1.3%	-0.4%	-0.5%	0.0%	0.2%	0.3%
Total tax collections (% of GDP)	11.9%	11.7%	11.5%	11.2%	11.9%	12.1%

Source: Author's calculations based on SAT data.

**FIGURE 2.1: CENTRAL GOVERNMENT TAX REVENUE BY TYPE OF TAX (% OF GDP)**



Source: SAT.

percent of GDP to 0.4 percent, while those from the corporate income tax rose from 1.4 to 2.4 percent.

**2.11 In addition to the taxes levied by the central government (a part of which is shared with sub-national governments), municipalities collect a limited amount of revenue from their own taxes.** Guatemala is the most decentralized of all Central American countries with respect to legally mandated revenue transfers to sub-national governments. According to the Constitution, 10 percent of general revenues must be transferred to municipalities. These resources are allocated by a commission according to the following

formula: 35 percent in equal parts to all municipalities; 30 percent proportional to each municipality's population; 25 percent proportional to each municipality's per capita own source revenue; and 10 percent proportional to the number of villages and hamlets in each municipality.<sup>38</sup> Transfers from the central government account for approximately two-thirds of total municipal revenues.<sup>39</sup> In addition, municipalities raise a limited amount of own source revenue from the real estate tax (*Impuesto Único sobre Inmuebles*, IUSI), which accounts for an average of 75 percent of total municipal tax revenue, as well as a number of user fees and charges.

38. According to Law 22/2002 (Revised Municipal Code).

39. The exception is Guatemala City, which generates almost three-quarters of its revenues from own sources.

2.12 **The heavy reliance on indirect taxes, and a generally weak taxpayer culture, raise concerns over equity and efficiency of the tax system.** The next section will consider in more detail (i) to what extent the state captures the tax intake that would be expected given the country's characteristics; and (ii) to what extent the Guatemalan tax system is regressive.

### *Efficiency of Guatemala's tax system*

2.13 **One measure of the efficiency of a country's tax system is tax effort.** Tax effort is generally defined as the ratio between actual collections and tax capacity, where tax capacity is the maximum tax revenue obtainable based on a country's economic, social, institutional and demographic characteristics.<sup>40</sup> A study conducted by Pessino and Fenochietto (2010) finds a significant and positive relationship between tax collections and the level of development, trade and education. Most Latin American countries included in the study perform far below their tax capacity; among these countries, Guatemala shows the lowest tax effort of all (Table 2.3). This suggests that Guatemala could significantly increase its tax revenues with an adequate mix of tax policy and administration reforms. In fact, the findings suggest that if tax effort was increased to the Latin American average, Guatemala could raise an additional 6 percent of GDP in tax revenue.

2.14 **One of the reasons behind the low tax collections is that tax expenditures are very high.** The amount of foregone revenue due to exemptions and other tax incentives are expected to reach 8.1 percent of GDP in 2012, according to SAT estimates included in the annual budget annex. In fact, tax expenditures have hovered around 8 percent in the past 6 years, representing up to three-quarters of total tax collections (Table 2.4). This compares to much lower levels in most other Latin American countries, ranging from 2.2 percent in Argentina to 5.4 percent in Mexico.<sup>41</sup>

2.15 **Tax expenditures are particularly high in the case of income taxes.** This is partly due to the way the SAT calculates tax expenditure, which includes the deduction of the first Q.36,000 of workers' salaries.<sup>42</sup> If this deduction was not included, tax expenditures would be approximately 2 percentage points of GDP lower. Other tax expenditures for the personal income tax include the VAT credit that is counted against the income tax bill<sup>43</sup>, as well as other deductions for pension contributions, donations etc. In the case of the corporate income tax, the exemptions enjoyed by *maquilas* represented the single most important tax expenditure (estimated at 0.25 percent of GDP in 2007).

2.16 **But even with the current structure of the tax system, collections could be increased through a curb on tax evasion.** Guatemala has one of the highest evasion rates in Latin America. Estimates suggest that VAT evasion is as high as 37.5 percent in Guatemala<sup>45</sup>, while the rate reaches 63.7 percent in the case of income taxes. While in most Latin American countries evasion is more rampant in the case of the corporate income tax, in Guatemala it appears that it is more pervasive in the personal income tax (69.9 percent vs. 62.8 percent).<sup>46</sup>

### *Equity of Guatemala's tax system*

2.17 **In general, indirect taxes tend to be less progressive than direct taxes.** This is because the most important indirect tax, the VAT, is linked to consumption and thus captures a wider tax base, including the poorer segments of the population. The most important direct tax, the income tax, on the other hand, has a much smaller base, consisting primarily of salaried employees in the formal sector. Similarly, the VAT is a flat rate tax applied to most products, while income taxes tend to be designed on a progressive scale (i.e. richer taxpayers pay a larger share of their income). The strong reliance on the VAT would thus suggest that the Guatemalan tax system is regressive.

40. Gomez Sabaini and Jimenez (2011).

41. Data for other countries is for 2007. Villela et al. (2010).

42. There is some debate over whether this standard deduction should be counted as a tax expenditure, or should be considered part of the structure of the tax brackets.

43. However, this tax credit was reduced by the new tax law approved in February 2012.

44. Cabrera (2010).

45. This estimate (for 2006) is considerably higher than estimates by Guatemalan authorities (26.1 percent for 2007).

46. Gomez Sabaini and Jimenez (2011).

TABLE 2.3: TAX EFFORT IN LATIN AMERICA<sup>A</sup>

	Year	Tax revenue (a)	Tax capacity (b)		Tax effort (a/b)	
		Actual tax revenue (% of GDP)*	Truncated model	Truncated normal heterogeneous model <sup>Λ</sup>	Truncated model	Truncated normal heterogeneous model <sup>Λ</sup>
Brazil	2006	34.2	34.8	36.0	98.4	95.1
Jamaica	2005	32.4	33.9	35.2	95.8	92.2
Colombia	2003	19.6	26.6	28.3	73.6	69.2
Costa Rica	2006	22.2	32.6	33.4	67.9	66.3
Trinidad and Tobago	2005	29.3	44.5	44.1	65.8	66.3
Bolivia	2006	26.6	39.2	42.5	67.8	62.5
Argentina	2006	27.4	42.9	44.6	63.9	61.4
LAC average		20.6	32.7	34.4	62.8	59.5
Paraguay	2006	15.3	24.0	25.8	63.7	59.3
Honduras	2006	17.9	27.4	30.3	65.3	59.0
Nicaragua	2004	21.5	31.9	37.8	67.3	56.9
Peru	2005	15.3	26.9	28.7	56.9	53.4
El Salvador	2006	15.3	28.1	30.0	54.3	50.8
Mexico	2006	19.9	39.4	40.5	50.5	49.2
Panama	2001	14.3	30.6	30.4	46.8	47.1
Dominican Republic	2005	14.2	29.3	31.3	48.5	45.3
Venezuela	2004	16.2	36.3	36.2	44.6	44.7
Guatemala	2005	10.7	27.6	29.9	38.7	35.8

\*Includes social security contributions. <sup>Λ</sup>Model shows impact of decreased corruption and inflation. Source: Pessino and Fenochietto (2011)

2.18 **As for specific taxes, the evidence is somewhat mixed.** Income taxes are generally found to be proportional.<sup>47</sup> The personal income tax is slightly progressive, given that only the highest income quintile has a positive tax bill<sup>48</sup>; while the incidence of the corporate income tax ranges from proportional to mildly regressive. The VAT, on the other hand, is regressive when measured relative to income, but mildly progressive when consumption is considered – probably due to the fact that certain products (especially food items) that represent an important share of the poor’s food basket, are exempt.

2.19 **However, given the small overall size of the tax intake, it is likely that even if the tax system was**

**more progressive, its distributional impact would be severely limited.** For instance, estimates suggest that only 3.3 percent of salaried workers currently have a positive income tax bill<sup>49</sup>, which means that the scope for income redistribution through the tax system is small. Any redistribution would thus have to come from the expenditure side.

### *The 2012 tax reforms – a break with history?*

2.20 **The new government pushed through an important package of tax reform within its first month in office.** This package includes two key laws: (i) the Anti-Evasion Law II (Law No. 4/2012), which introduces a number of measures strengthening tax administra-

47. See, for example, Cabrera (2010) and Cubero & Hollar (2010).

48. I.e. they are above the minimum income threshold and their VAT deductions are smaller than the total tax liability.

49. ICEFI 2012. This percentage is likely to increase with the recently approved tax reforms.

TABLE 2.4: TAX EXPENDITURES BY TYPE OF TAX (CURRENT Q. MILLIONS)<sup>^</sup>

	2006	2007	2008	2009	2010*	2011*	2012*
<b>Direct taxes</b>	<b>14,565.0</b>	<b>16,477.4</b>	<b>18,611.8</b>	<b>18,845.2</b>	<b>20,126.3</b>	<b>21,537.9</b>	<b>23,366.7</b>
Income taxes	13,742.7	15,739.3	17,737.8	17,931.6	19,158.2	20,510.0	22,199.1
Financial product taxes	40.7	94.8	147.1	238.0	252.8	269.1	433.1
Solidarity tax	781.6	643.3	726.9	675.6	715.3	758.8	734.5
<b>Indirect taxes</b>	<b>3,858.9</b>	<b>4,631.2</b>	<b>5,087.7</b>	<b>5,406.6</b>	<b>5,902.3</b>	<b>6,462.1</b>	<b>8,174.1</b>
VAT	3,414.8	3,989.8	4,510.2	4,800.7	5,212.0	5,672.7	7,477.0
Import tariffs	400.7	595.5	541.3	564.9	644.4	738.0	639.3
Fuel taxes	36.5	39.0	30.3	34.5	38.7	43.4	46.1
Tobacco taxes	1.4	1.3	0.7	1.2	1.5	1.8	1.7
Beverage distribution tax	0.1	0.1	0.1	0.1	0.1	0.1	0.5
Vehicle taxes	4.5	4.7	4.7	5.1	5.5	6.0	9.0
Cement distribution tax	0.9	0.8	0.4	0.1	0.1	0.1	0.5
<b>Total tax expenditures (Q. millions)</b>	<b>18,423.9</b>	<b>21,108.6</b>	<b>23,699.5</b>	<b>24,251.8</b>	<b>26,028.6</b>	<b>28,000.0</b>	<b>31,540.8</b>
<b>Total tax expenditures (% of GDP)</b>	<b>8.0%</b>	<b>8.1%</b>	<b>8.0%</b>	<b>7.9%</b>	<b>7.8%</b>	<b>7.7%</b>	<b>8.1%</b>
<b>Total tax expenditures (% of total tax collections)</b>	<b>67.6%</b>	<b>66.9%</b>	<b>71.0%</b>	<b>76.2%</b>	<b>74.9%</b>	<b>68.9%</b>	<b>72.3%</b>

Notes: <sup>^</sup>The definition of tax expenditures used by the government may differ from internationally accepted definitions. \*Indicates projection. 2012 projections do not take into account the recently approved tax reforms. Source: SAT.

## Box 2.2: KEY PROVISIONS OF THE 2012 TAX LAW

### Corporate income tax:

- Rate increase for the simplified regime: from single general rate of 5 percent on gross income, to two marginal rates on gross income: 5 percent up to Q.30,000 per month, and 7 percent for income over Q.30,000 per month;
- Rate reduction in the net profits regime, from 31 to 25 percent;
- Tightening of documentation requirements for deductible expenses in the net profits regime;
- Inclusion of transfer pricing.

### Personal income tax:

- Taxation of dividends at 5 percent in the capital income regime;
- Reduction in marginal tax rate from 15-31 to 5-7 percent on net income;
- Elimination of VAT credit;
- Deduction raised from Q.36,000 to Q.48,000 per year, expandable to Q.60,000 per year if VAT invoices are presented;
- Reduction in the list of deductible expenses

### Vehicle registration tax:

- Replacement of import tariff with a domestic tax on the first registration of vehicles

### Customs

- Domestic legislation required to apply regional customs regulations;
- Strengthening customs authority's capabilities to fight contraband and customs fraud

### Sales of real estate

- Elimination of cascade effect of VAT for second and successive sales, replaced by stamp tax with lower base.

### Other taxes

- Tax rate doubled for circulation of vehicles

Source: ICEFI (2012).

tion; and (ii) the Law updating Guatemala's tax system (*Ley de Actualización Tributaria*, Law No. 10/2012), which makes important changes to the tax rates, tax bases and other aspects of the existing system. Both laws are fundamentally based on the proposals developed by a non-partisan group of economists in 2008 (*Grupo Promotor del Diálogo Fiscal*, GPDF), representing broad-based consensus.

**2.21 The Anti-Evasion Law II builds on the 2006 law by further strengthening the role of SAT.** In particular, the agency's mandate to control and audit the payments of VAT, personal income taxes and other taxes was strengthened, and the Tax Code was modified to modernize administrative procedures. The law also includes measures designed to reduce the informal economy and incorporate small VAT taxpayers into the system. Finally, it reinstates the tax on tobacco consumption.

**2.22 The 2012 tax law represents the first comprehensive tax policy reform approved in many years.** Most notably, it includes a new legal basis for the income tax, introduces a new tax on vehicle registration and strengthens customs administration (Box 2.2).<sup>50</sup> While this represents an important step in the right direction, the revenue impact of the law is limited: estimates suggest that taken together, the Anti-Evasion and Tax Laws together would raise an additional 1-1.3 percent of GDP in tax collections. Given the nature of the reforms, whether the revenue impact can be achieved or not also depends crucially on the ability of SAT to improve its controls. Finally, the new law – just like many previous reform attempts – is vulnerable to legal challenges that could lead to a partial or full reversal.

### C. STRUCTURE AND PERFORMANCE OF EXPENDITURES

**2.23 In recent years, the debate about tax reforms has been closely tied to the need for improvements regarding expenditure efficiency and transparency.** A key argument used by opponents of the tax reform was that an increase in tax revenue would only contribute to inefficient spending, corruption and – by extension – mediocre outcomes in public service de-

livery. As a result, the original GPDF reform proposal included both measures on the revenue as well as on the expenditure side. These included, among others: a ban on the financing of current expenditure with debt; strengthening of regulations on fiscal transparency and accountability; justification of budgetary transfers between ministries that take place throughout the budget year; enforcement of sanctions against the creation of commitments without budgetary resources; reforms of the procurement law; extend the compulsory use of the Public Financial Information System (SIAF) to decentralized entities of the public sector. While the tax reform proposal was broadly adopted in the two laws approved in February 2012, the new government is planning to include some of the proposed expenditure measures in a separate set of laws on fiscal transparency as part of its "Fiscal Pact for Change" (see Box 2.3).

**2.24 Concerns over public spending are especially prominent because of the perceived lack of progress since the Peace Accords.** The 1996 Peace Accords, which ended a protracted civil war, represented an important milestone in that they presented a consensus on the country's key development priorities and included clearly defined targets for tax revenues, public expenditure in priority sectors and human development outcomes. While the spending targets have generally been met, Guatemala is lagging far behind several of the outcome targets, especially regarding infant and maternal mortality (Table 2.5).

**2.25 A key problem is that the high degree of rigidity in the budget leaves little room for changes in budget priorities.** In the 2011 budget, for instance, 83 percent of expenditures may be considered rigid. As illustrated in Table 2.6, these include constitutionally-mandated transfers to autonomous and decentralized entities (10 percent of the total budget), the earmarked VAT funding social programs (7 percent excluding decentralized entities), remunerations and pensions (26 percent) and debt service (16 percent). As a corollary of these rigidities and the country's limited fiscal envelope, budget priorities have remained largely unaltered over the last fifteen years, with only defense (from 10 percent to roughly 3 percent of pub-

50. The income tax reforms are expected to increase the number of effective taxpayers (i.e. those with a positive tax bill) from 55,000 to 300,000, while 90 percent of salaried workers in the lower income ranges will continue to pay zero income tax.

### Box 2.3: THE GOVERNMENT'S REFORM PROGRAM FOR FISCAL TRANSPARENCY

In the weeks leading up to the approval of President Pérez Molina's tax reforms, opposition parties and private sector representatives made clear that fiscal reform will remain incomplete without a comprehensive legal package bolstering transparency. Beyond the recent creation of the Secretariat for Control and Transparency on February 9, 2012, at least eight transparency laws are now waiting to be presented before Congress. Of these, five initiatives should be highlighted.

- **Reform to the Budget Law.** The aim of this reform is to gain greater flexibility in executing the annual budget by making the rules that govern its implementation more transparent. Current practice involves passing a series of norms and rules every year that regulate the new budget, making the execution of public resources cumbersome. This reform would eliminate this annual practice.
- **Reform to the Law Governing Trust Funds.** This reform seeks to make Trust Funds that manage public resources more transparent by holding them responsible for complying with the norms set forth in Law of Public Contracts and accountable before the Auditor General of Public Accounts. Currently, Trust Funds are not legally bound to either.
- **Law of Public Contracts.** This reform aims to increase transparency in state contracts by updating the bidding process, making it more accessible to the public. Additionally, it would reevaluate the contractual period of contracts in forces. The later of these is targeted at combating the floating debt.
- **Public Service Reform.** This reform would strengthen the establishment of a career in public service through creating legal certainty in labor relations between the State and its employees. Such actions will involve guarantying the application of norms that govern the management of public personnel.
- **Law against Illicit Enrichment.** Currently, the sanction for such crimes consists of paying a fine. If passed, this law would increase sanctions for public officials suspected of illicit enrichment, allowing them to be prosecuted under the penal code. It should be mentioned that this legislation received favorable judgment by Congress in 2008, yet has not been made into law.

Source: Bank staff.

lic spending) and education (from 15 percent to 19 percent) seeing substantial variation (Table 2.6).<sup>51</sup>

**2.26 The Executive's control over spending allocations and budget transparency is also somewhat limited by the negotiations during Congressional approval.** While there is some assurance that the Executive's budget proposal reflects line ministries' priorities<sup>52</sup>, once the draft law reaches Congress it becomes the subject of intense bargaining. Much of the parliamentary power over the budget rests with the 21 members of the Public Finance and Monetary Commission; once the budget law has been approved by the Commission, the Plenary on its own can only alter up to 30 percent of the articles.<sup>53</sup> Discussions in the Commission as the "epicenter of political negotiations"<sup>54</sup> tend to center around four types of modifications: (i) budget allocations for public works

to specific companies, NGOs or other institutions; (ii) modifications to budget transparency norms; (iii) restrictions to reduce executive discretion for budget execution; and (iv) assignment of quotas to loans still awaiting congressional approval. Politically most salient, the Commission in practice defines the Geographic List of Public Works, an annex to the budget which specifies the geographic location of public works – a key source of social legitimacy in their constituencies. Once the budget law leaves the Commission, further modifications are made by the plenary, although these tend to be smaller in scope. Partly as a result of these Congressional modifications, the Executive makes extensive use of inter- and intra-institutional budgetary transfers. The combination of these practices represents an important obstacle to efficient, predictable and transparent expenditure management.<sup>55</sup>

51. Schneider and España-Najera (2011).

52. See Chapter 4 for more information.

53. A higher share can be modified if at least 11 members of the Commission sign the modifications.

54. Barrientos (2011, p.9).

55. Chapter 4 has a more detailed analysis of the budget process.

## Economic classification of central government expenditure

**2.27 After the significant expansion in public expenditure following the Peace Accords, spending has stabilized around 14 percent of GDP in the past 10 years.** Current expenditures have accounted for roughly two-thirds of total spending, with wages and salaries representing the biggest share. However, the wage bill has accounted for a relatively small share of the increase in total spending, remaining below 4

percent of GDP. Current transfers, especially those to public trust funds (*fideicomisos*), have increased from 1.4 to 2.4 percent of GDP since 1995.<sup>56</sup> Capital expenditure has experienced larger fluctuations, from 3 percent of GDP in 1995 to 5.8 percent in 1999 and 4 percent in 2011.

**2.28 Guatemala's wage bill is relatively small.** Guatemala's civil service comprises 254,000 workers, of which the education sector accounts for 70 percent.<sup>57</sup> Consequently, over half of all salaries are paid in the

**TABLE 2.5: PROGRESS TOWARDS ECONOMIC, FISCAL AND SOCIAL OBJECTIVES OF THE PEACE ACCORDS**

Objective	1995	2000		2011
	Baseline	Target <sup>1</sup>	Actual <sup>1</sup>	Actual <sup>2</sup>
<b>Economic and fiscal objectives</b>				
GDP growth rate (%)	4.9	6.0	4.1	3.7
Tax revenue (% of GDP)	7.9	13.2	10.6	11.0
Public expenditure				
Health and soc. assistance (% of GDP)	0.9	1.5	1.5	2.0
Education (% of GDP)	1.7	2.7	2.7	3.2
Judicial sector/Public Ministry (% of GDP)	0.3	0.5	0.6	0.5
Military (% of GDP, ceiling)	1.0	0.8	0.9	0.3
Low-income housing (% of tax revenue)	0.2	0.2	0.0	0.1
Internal security (% of GDP)	0.4	0.6	0.8	0.9
<b>Social objectives</b>				
Literacy rate (%)	64.2	70.0	68.9	76.0
Primary education coverage				
Gross enrollment	84.0	100.0	125.0	n.a.
Net enrollment	69.0	100.0	72.0	97.0
Infant mortality (per 1,000 live births)	46.0	20.0	39.0	24.8
Maternal mortality (per 100,000 births)	140.0	48.5	110.0	110.0
Vaccination coverage				
Polio	80.0	85.0	88.0	91.7
Measles	83.0	95.0	86.0	93.0

Notes: 1) Using GDP w/base year 2001. 2) Preliminary for 2011 or latest year available. GDP growth rates for 2000 and 2011 are averages for 1995-2000 and 1995-2011, respectively. Sources: Ministry of Finance; World Bank (2005a); Central Bank of Guatemala; INE-ENCOVI 2006 & 2011; INE – Encuestas Nacionales de Salud Materno Infantil; World Development Indicators.

56. See Chapter 4 for a discussion of *fideicomisos* and their role in public expenditure management.

57. As of 2010, according to data from the National Civil Service Office (*Oficina Nacional de Servicio Civil*, ONSEC).

**TABLE 2.6: RIGIDITY CLASSIFICATION OF THE 2011 BUDGET (AS OF SEPTEMBER 2011)**

Expenditure Type	Quetzales (million)	Share of total budget
<b>A. Rigid Expenditures</b>	<b>47,625.70</b>	<b>86%</b>
Remunerations	12,692.00	23%
Pensions and other obligations	3,334.50	6%
Public debt service	7,582.00	14%
Peace VAT (excluding departmental councils and municipalities)	2,998.40	5%
Institutional contributions	5,834.80	10%
Specific usages (excluding departmental councils and municipalities)	5,913.10	11%
Constitutional transfers (excl. departmental councils and municipalities)	2,581.10	5%
Central government transfers to departmental councils	1,917.10	3%
Central government transfers to municipalities	4,772.70	9%
<b>B. Flexible Current Expenditures</b>	<b>1,185.50</b>	<b>2%</b>
<b>C. Physical Infrastructure</b>	<b>6,805.90</b>	<b>12%</b>
<b>Total</b>	<b>55,617.10</b>	<b>100%</b>

Source: Ministry of Finance, Barrientos (2011).

**TABLE 2.7: CENTRAL GOVERNMENT EXPENDITURE – ECONOMIC CLASSIFICATION (% OF GDP)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Total Expenditure</b>	<b>15.1</b>	<b>13.4</b>	<b>13.7</b>	<b>14.7</b>	<b>14.3</b>	<b>13.6</b>	<b>14.2</b>	<b>14.6</b>	<b>14.7</b>
<b>Current expenditure</b>	<b>10.1</b>	<b>9.2</b>	<b>9.1</b>	<b>9.4</b>	<b>9.5</b>	<b>9.2</b>	<b>10.1</b>	<b>10.4</b>	<b>10.6</b>
Wages and salaries	3.9	3.6	3.3	3.3	3.1	3.1	3.6	3.8	3.9
Goods and services	1.5	1.1	1.1	1.3	1.3	1.8	1.9	1.9	2.0
Interest	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.5	1.5
Current transfers	2.5	2.3	2.5	2.6	2.7	2.1	2.3	2.4	2.4
Others current expenditure	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9
<b>Capital expenditure</b>	<b>5.1</b>	<b>4.3</b>	<b>4.6</b>	<b>5.3</b>	<b>4.8</b>	<b>4.5</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>
Fixed capital formation	1.1	1.1	1.2	1.6	1.8	1.9	1.8	1.8	1.9
Capital transfers	3.9	3.1	3.4	3.6	3.0	2.5	2.3	2.3	2.2
Other capital expenditure	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0

Source: Staff calculations based on data from Ministry of Public Finance and Central Bank.

education sector (54 percent). Internal security (14 percent) and health and social protection (13 percent) together account for another quarter of the wage bill. In international comparison, Guatemala's wage bill – which accounts for 27 percent of total expenditures in 2011 – is not excessively large. In fact, as a share of

GDP Guatemala has by far the smallest wage bill in Central America.

**2.29 Transfers represent the second largest category of current expenditure.** This spending category includes the MiFaPro conditional cash transfer pro-

gram, which accounts for approximately 15 percent of the total. It also includes transfers to other parts of the public sector, including the judicial sector, the public university and municipalities.

**2.30 Central government capital expenditure is concentrated in the transport sector.** The vast bulk of fixed capital formation at the central level is allocated to rural and urban development and transport, which on average together account for two-thirds of the total. All other sectors account for 5 percent or less each of the total. In addition to direct investment by the central government, 54 percent of capital spending is channeled through transfers, including to regional development councils, municipalities and other private and public entities, for which a detailed sectoral breakdown is not available.

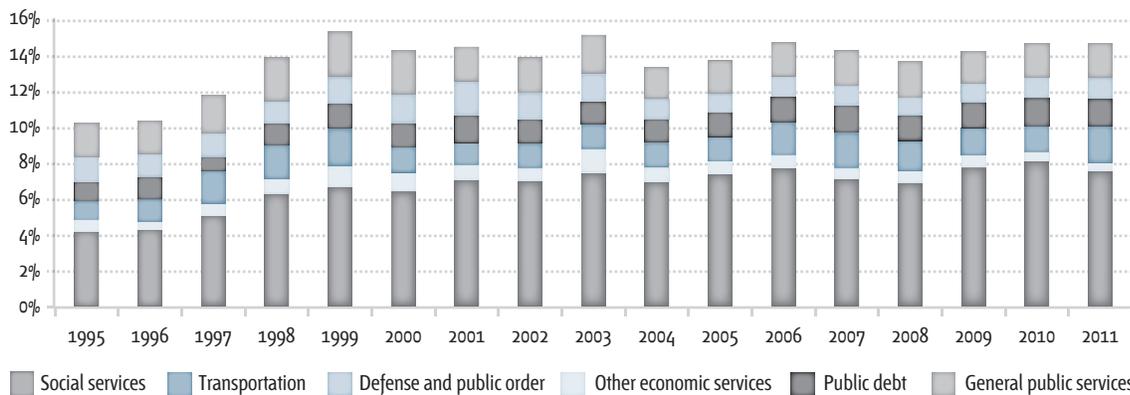
**2.31 Research suggests that Guatemala’s historical public investment levels are not sufficient to support sustained growth.** As a share of GDP and on a per capita basis, Guatemala’s infrastructure investment is the second lowest in Central America, just above El Salvador and Nicaragua, respectively. A recent IMF study estimates that Guatemala could raise growth by over 1 percentage point by increasing its investment-to-GDP ratio to the average for Mexico, Peru and Chile.<sup>58</sup>

### Functional classification of central government expenditure

**2.32 Social spending has expanded significantly since 1995.** Expenditure in the social sectors<sup>59</sup> has increased from 4.4 percent of GDP in 1995 to 7.6 percent in 2011. As a share of total expenditure, it rose from 43 percent in 1995 to 52 percent in 2011, representing one of the highest shares in the region. The increase reflects both the commitments made under the Peace Accords in 1996, as well as a strong focus on social sectors under the previous administration, including the introduction and expansion of the conditional cash transfer program *Mi Familia Progres*a.<sup>60</sup> The increase in social spending is likely to have contributed to the achievement of several of the targets agreed to under the Peace Accords.

**2.33 However, measured against the size of its economy, Guatemala has the lowest social expenditure levels in Central America** (Figure 2.3). As a share of GDP, Guatemala ranks lowest among the six countries; when measured in per capita terms, it ranks just above Nicaragua but below all other Central American countries, spending roughly one-tenth of the amount Costa Rica spends per person. It is thus not surprising that Guatemala also lags behind in human development outcomes.

FIGURE 2.2: CENTRAL GOVERNMENT EXPENDITURE – FUNCTIONAL CLASSIFICATION (% OF GDP)



Source: Staff calculations based on data from Ministry of Public Finance and Central Bank.

58. Swiston & Barrot (2011).

59. “Social spending” is defined as all expenditures under the budget code 300.

60. MiFaPro was introduced in 2008 and its coverage expanded from 281,000 households in 2008 to 873,000 households in 2011.

**2.34 Capital expenditure is concentrated in two sectors.** The bulk of public investment goes into transport and urban and rural development, both of which have accounted for 33 percent of total capital spending since 2004. The remainder has been allocated to agriculture (5.5 percent), health and social assistance (3.5 percent), environment (3.1 percent) and other sectors. Despite the high concentration of investment in the transport sector, spending is not sufficient to meet actual spending needs (including new construction, maintenance and disaster reconstruction), as demonstrated by the deterioration in the quality of Guatemala's road network in recent years.<sup>61</sup>

#### *Geographic distribution of expenditures: municipalities<sup>62</sup>*

**2.35 Municipalities are responsible for a limited range of public services:** water and sanitation, markets, street cleaning, waste management, municipal police, municipal roads, and local environmental and recreational services. Municipalities are also involved in the *management* of pre-primary and primary education and in the execution of preventive health services, but are not responsible for the design or full financing of these services. Even though the financing of health and education do not formally fall under the municipalities' span of control, many municipalities hire contract teachers and health workers to supplement the deconcentrated staff from the central government ministries.

**2.36 In line with their primary expenditure responsibilities, sub-national fiscal data suggests that municipalities allocate a larger share of their budgets to capital investments than the central government.** A breakdown by economic classification reveals that municipalities spend 63 percent of their budgets on capital expenditure, compared to 27 percent at the central government level. In 2009, 20 percent of municipal capital spending went to the transport sector, 11 percent to water and sanitation, 5 percent to education and 4 percent to urban and rural development, with the remainder accounted for by other sectors.

This clearly shows that transport is a key priority for municipal governments.<sup>63</sup>

**2.37 There is great divergence in social expenditures across sub-national governments.** Combined public spending in the social sectors ranges from Q.774 per capita in the department of Alta Verapaz to Q.2,193 in the department of Guatemala. There is no clear relationship between needs (measured by the incidence of poverty) and per capita spending; in fact, it is striking that at 78.2 percent, Alta Verapaz has the highest poverty incidence of all departments but the lowest per capita social expenditure, compared to Guatemala, which has the lowest poverty incidence (18.6 percent) and highest per capita expenditure. This lack of an obvious association of needs indicators with spending allocations also holds for individual components of social spending. Historical trends, as well as other socio-economic factors such as migration, may explain some of the variation (see Chapter 3 for a more in-depth analysis of health and education expenditure). In addition, the municipality of Guatemala is home to two of the country's largest hospitals, as well as the University of San Carlos, all of which absorb large budgets. Finally, shortcomings in the way expenditures are registered in the SICOIN may explain the apparent discrepancies: for instance, some ministries, especially those that remain heavily centralized, record expenditures in the municipality where the executing agency is located (often Guatemala City), not in the municipality that benefits from the spending. This means that central government expenditures for the department of Guatemala are likely to be lower than the analysis of the SICOIN data suggests.

#### *D. FISCAL SUSTAINABILITY*

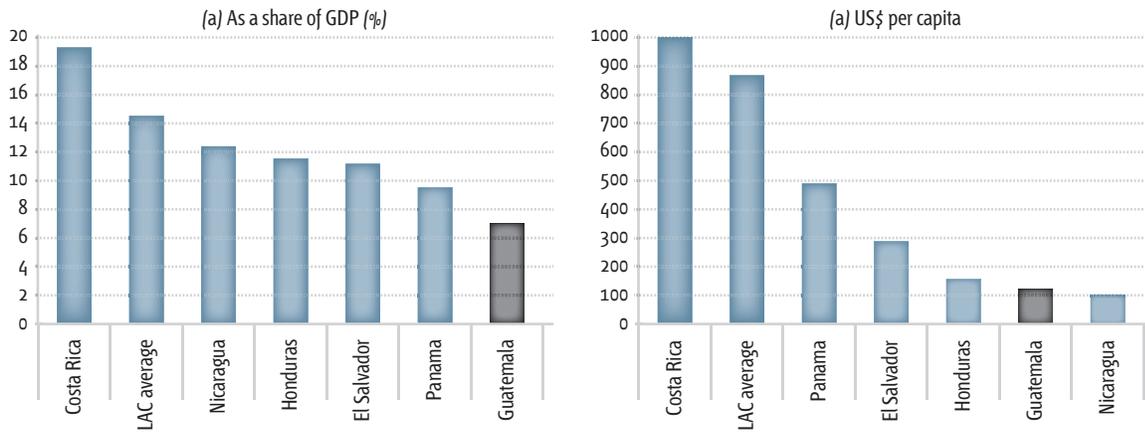
**2.38 Guatemala's public debt levels are among the lowest in Central America.** Traditionally conservative macroeconomic management resulted in debt levels of around 20 percent of GDP before the 2008 crisis. Given the increase in the fiscal deficit since the 2008 global economic crisis, public debt increased to

61. See Chapter 3 for a more in-depth discussion for issues related to transport spending.

62. Based on the data available through the SIAF-Muni. Municipal budget data is only available beginning in 2008, and not at the same level of detail as central government expenditure.

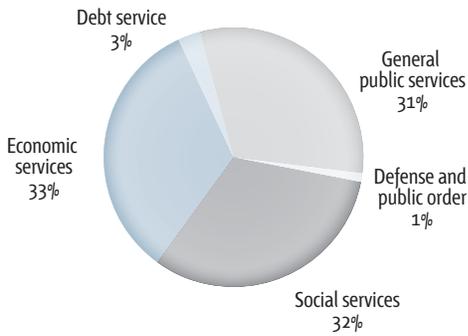
63. One reason for the prioritization of transport by municipalities is the earmarking of transfers from the fuel tax for investments in roads and highways.

FIGURE 2.3: SOCIAL EXPENDITURE IN CENTRAL AMERICA



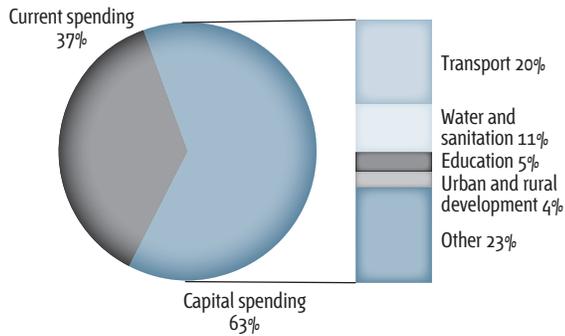
Note: Data shown is for latest year available. Source: ECLAC.

FIGURE 2.4: MUNICIPAL SPENDING BY FUNCTIONAL CLASSIFICATION (2009)



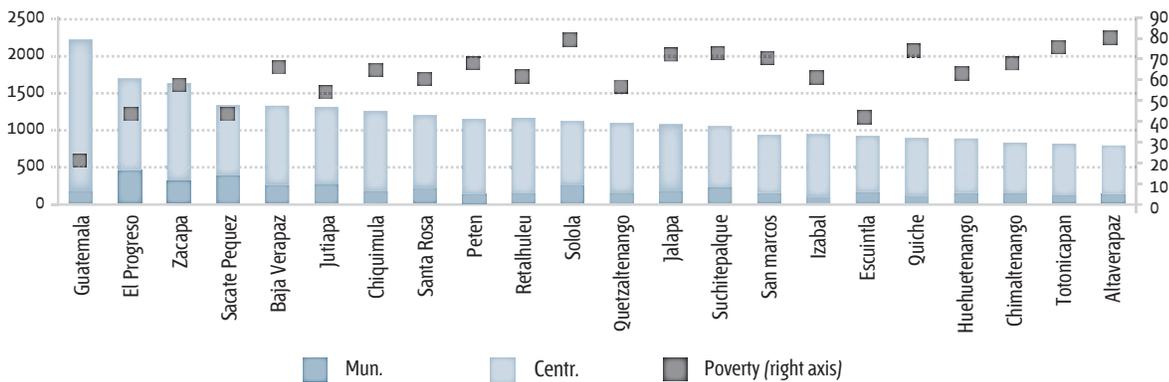
Source: BOOST database using SICOIN data.

FIGURE 2.5: MUNICIPAL SPENDING BY ECONOMIC CLASSIFICATION (2009)



Source: BOOST database using SICOIN data.

FIGURE 2.6: MUNICIPAL AND CENTRAL GOVERNMENT PER CAPITA SOCIAL EXPENDITURE AND POVERTY, BY DEPARTMENT (2009)



Note: Social expenditure is defined as all items in budget category 300. Excludes central government spending classified as "multi-departmental" or "multi-regional". Source: ENCOVI 2011 (poverty) and BOOST database using SICOIN data.

US\$11.4 billion (24.3 percent of GDP) in 2011. Domestic debt accounts for 12.3 percent, while the remainder is made up of loans from multilateral and bilateral creditors, as well as Eurobonds held by private investors (issued in 2003 and 2004). The share of domestic debt has increased in recent years (from 44 to 50 percent of total public debt) as the government has increasingly tapped local markets for financing, primarily in local currency. As a result, the share of public debt denominated in Quetzales has increased from 12 percent in 2000 to 45 percent in 2011. In addition, 63 percent of the government's debt is at fixed interest rates, of between 1 and 9 percent.

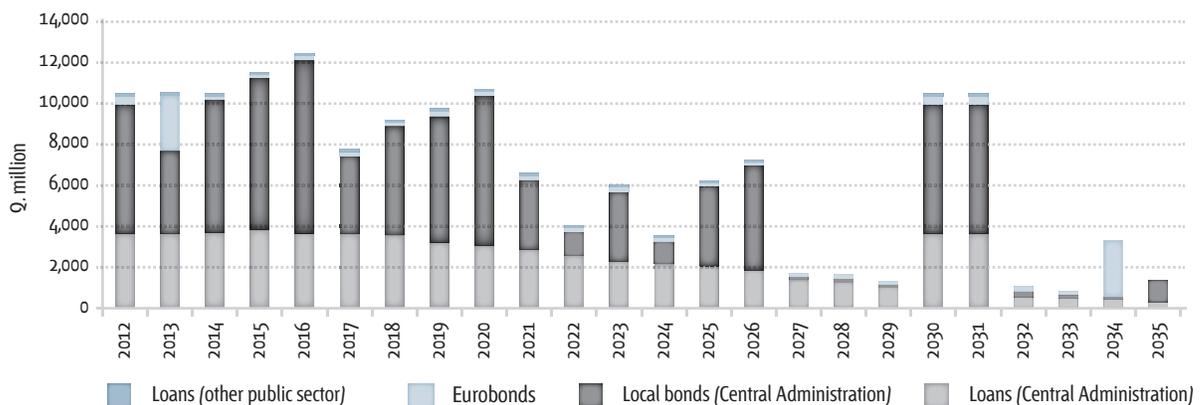
**2.39 Given the country's low tax-to-GDP ratio, it may be prudent to maintain relatively conservative debt levels.** Despite relatively low public debt as a share of GDP, central government debt was equivalent to 203 percent of total revenue in 2011, compared to 211 percent in Costa Rica (with a debt-to-GDP ratio of 41 percent) and 185 percent in Honduras (with a debt-to-GDP ratio of 33 percent). Recent research also suggests that Guatemala's "debt intolerance"<sup>64</sup> threshold is lower than of its middle-income Central American neighbors (Costa Rica, Panama and El Salvador). In other words, the debt-to-GDP ratio required for Guatemala to reach investment grade is estimated

to be lower than that for the other three countries. As a result, a jump from its current non-investment grade to "borderline" investment grade would require a reduction in the country's public debt to below 15 percent of GDP.<sup>65</sup>

**2.40 Debt service will be substantial in the next 8 years.** While the repayment schedule for long-term multilateral loans is fairly smooth, the shorter maturity of domestic bonds (10 years on average) issued in recent years, in addition to the large principal repayments on Eurobonds falling due in the next 8 years, means that debt service will average Q.10-12 billion annually between 2012 and 2016, compared to Q.7 billion in recent years and equivalent to between 17 and 22 percent of projected total revenues.

**2.41 A comprehensive debt management strategy would help keep debt levels at sustainable levels and ensure consistency with the government's medium-term fiscal policy.** A strategy could also help to achieve a more favorable debt service schedule. As part of such a strategy, the government would need to constantly evaluate the costs and benefits of different types of debt, including domestic and international bonds and loans from bilateral and multilateral sources.

FIGURE 2.7: PROJECTED PUBLIC DEBT SERVICE\*



\*Based on existing stock of debt as of end-2011. Source: Public Credit Office, MOF.

64. Debt intolerance is defined as the phenomenon of certain countries falling into repeated debt defaults at relatively low levels of debt. Fiscal rigidities, economic inefficiencies and exposure to external shocks make these economies vulnerable to fiscal and debt crises at relatively low levels of debt to GDP (Bannister & Barrot 2011).

65. Bannister & Barrot (2011).

## E. CONCLUSIONS AND RECOMMENDATIONS

2.42 **The approval of the recent tax reforms is an important milestone, but the fiscal impact will depend on the effectiveness of Guatemala's tax administration.** Given the low estimated rates of tax effort, significant tax expenditures and rampant evasion, significant gains in revenue collection can only be realized through a strengthening of the tax and customs administration.

2.43 **The transparency of public expenditure needs to be strengthened further.** Guatemala has good information systems (such as the SIAF, SICOIN and Guatecompras) that are not fully utilized yet. It would be important to ensure their compulsory use throughout the entire public sector and strengthen controls to prevent misuse. The new government has shown commitment towards strengthening transparency through the creation of the Secretariat of Transparency and the submission of a package of reforms to Congress. This package includes important measures, such as the strengthening in the oversight of public trust funds (*fideicomisos*), and changes to the Budget Law, which would replace the important but temporary provisions on budget implementation included in the annual regulations of the budget.

2.44 **Better information is needed to improve expenditure quality and adequately assess the regional distribution of public spending.** Given the existing deficiencies in the SIAF and SICOIN systems, it is difficult to obtain detailed and comprehensive information on resource allocations by municipality or department. Availability of sectoral outcome indicators at the sub-national level is even more limited. In order to allocate scarce resources in the most effective way, better information is required and needs to be linked to budget preparation.

2.45 **Finally, investment in infrastructure should be boosted.** The new government is committed to linking its medium-term debt management strategy more closely to its investment plans, which would help utilize financing in a more efficient way. However, given the limited public resources available, Guatemala's investment needs cannot be met by the government alone; private sector participation will be important (see Chapter 3).



CHAPTER 3  
THE QUALITY OF PUBLIC EXPENDITURE  
IN SELECTED SECTORS

## » A. Introduction

**3.1. As mentioned in Chapter 1, concerns over the quality (as well as the transparency) of public expenditure have been at the forefront of the public debate on fiscal reforms in Guatemala.** Given the scarce resources available, as well as the perceived lack of progress with regards to a number of the Peace Accords targets (especially in the social sectors), improving the quality of public spending in key sectors has emerged as a priority. But assessing expenditure quality requires a significant amount of information, both on inputs (budget allocations, personnel numbers etc.) and on outputs and outcomes, which is currently not available for all sectors.

**3.2. The purpose of this chapter is to analyze the quality of public spending in education, health and the transport sector.** The three sectors were chosen because they represent a large share of total public expenditure: in 2010, they represented 45 percent of central government and 25 percent of municipal government spending. Using the methodology developed under the World Bank BOOST program,<sup>66</sup> a data platform was developed, consolidating all spending and outputs at the central and sub-national level<sup>67</sup> to explore linkages between government spending and development outcomes, as well as tracking spending of individual sectoral programs. The objective is to gain a better understanding of how and how well public funds are spent, in order to help start a conversation between budget providers and budget implementers on why similar combinations of spending and inputs result in different outcomes, and how better or similar outcomes can occur for budget centers that receive lower spending and non-financial inputs.

66. The BOOST initiative is a new program launched by the bank to deepen the knowledge base of public spending by supporting creation, use and dissemination of data platforms that consolidate disaggregated spending and output data for exploration of new frontier areas in public expenditure analysis. Currently the program has been launched in more than 20 countries worldwide.

67. The geographical breakdown of the budget in 2010 allows identifying to which municipality goods and services are oriented, as well as the unit responsible for the execution of programs, sub-programs, projects, activities and works that integrates its budget.

## B. QUALITY OF PUBLIC EXPENDITURE IN THE EDUCATION SECTOR

### Allocative efficiency

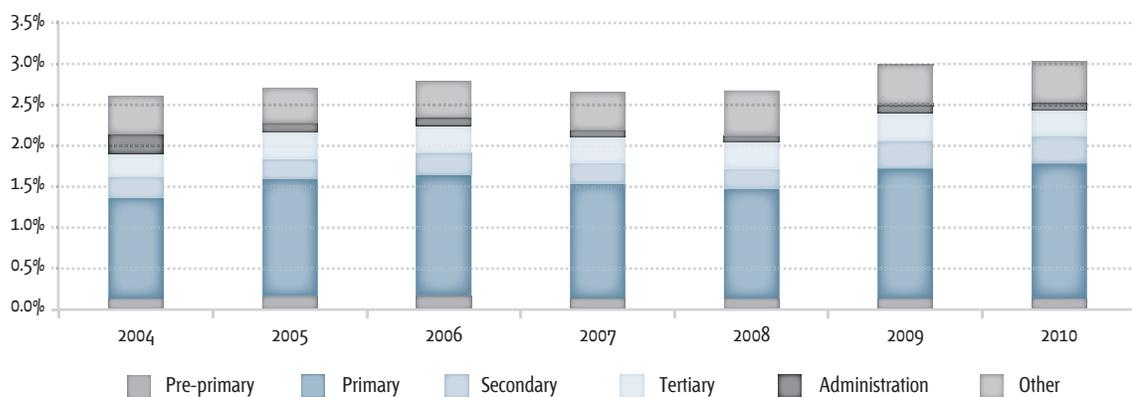
**3.3. Despite the progress in increasing primary school enrollment, Guatemala continues to lag behind in the overall performance of its education sector.** For instance, the Guatemalan population has an average of 5 years of schooling, compared to a Central American average of 7.1 years, 8.3 years in Costa Rica and 9.4 years in Panama. The situation is even worse for the indigenous population: Guatemalans whose native language is not Spanish only have 4 years of schooling, compared to 7 years for native Spanish speakers. Pre-primary and secondary enrollment rates are particularly low, reaching only 30 and 40 percent of the school-aged population, respectively.<sup>68</sup> Outcomes also vary significantly from region to region: the department of Guatemala has the highest literacy and total gross enrollment rates in the country, while the departments in the north-west of the country (Quiché, Alta Verapaz and Huehuetenango) rank at the bottom.

**3.4. Education spending, especially at the primary level, has increased in recent years, in line with government priorities.** Since 2004, Guatemala

has raised its education spending from 2.6 percent of GDP to 3 percent<sup>69</sup>, reflecting a strong focus on strengthening social expenditure by the previous administration (Figure 3.1). The increase can primarily be attributed to an expansion in primary education spending, from 1.2 to 1.5 percent of GDP. Primary education now accounts for 44 percent of total education spending, with pre-primary, secondary and tertiary receiving around 10 percent each. While the increase in primary education expenditure is a positive trend, total public spending (as a share of GDP) in the sector continues to be significantly less than neighboring countries, as well as the Latin American (4.4 percent) and lower middle income (4 percent) country average.

**3.5. Education remains a highly centralized function.** The bulk of public spending in the sector takes place at the central government level (96 percent), reflecting the centralized nature of the sector (Figure 3.2). Any spending taking place at the municipal level is to complement the deconcentrated services provided by the central government, through the hiring of contract teachers, improvements of school buildings and similar activities. While there is some variation in education spending among municipalities, municipal shares in total spending do not exceed 11 percent in any department. Excluding Guatemala,

FIGURE 3.1: CENTRAL GOVERNMENT SPENDING ON EDUCATION, BY FUNCTION (% OF GDP)\*



\*Excludes transfers to the Program Mi Familia Progresiva. Source: BOOST database using SICOIN data.

68. World Bank (2011c).

69. Excludes transfers to the Program Mi Familia Progresiva.

the department with the highest total combined public expenditure on education spends 1.6 times as much as the department with the lowest per capita spending.

**3.6. Incidence analysis suggests that education expenditure is overall poverty neutral.** While primary education expenditure is found to be progressive (i.e. disproportionately benefiting the poor), spending on secondary and tertiary education is regressive. The high share of education expenditure allocated to the primary level is therefore beneficial for poverty reduction.<sup>70</sup> In the case of individual programs, the picture also varies considerably, especially when taking account the geographic distribution of the benefits. The school supplies program is a good example of a transfer that reaches an important segment of the population (12.9 percent) and is pro-poor (64.5 percent of its benefits are received by the poor); another is the school meal program, which reached some of the poorest regions in the country including the departments of Huehuetenango and Quiche in 2010. However, spending on textbook programs was concentrated in the capital city and surrounding areas, and is thus more likely to benefit non-poor populations. In the case of teacher training, spending is limited across the entire country, although in some departments (such as Jalapa) it represents up to a

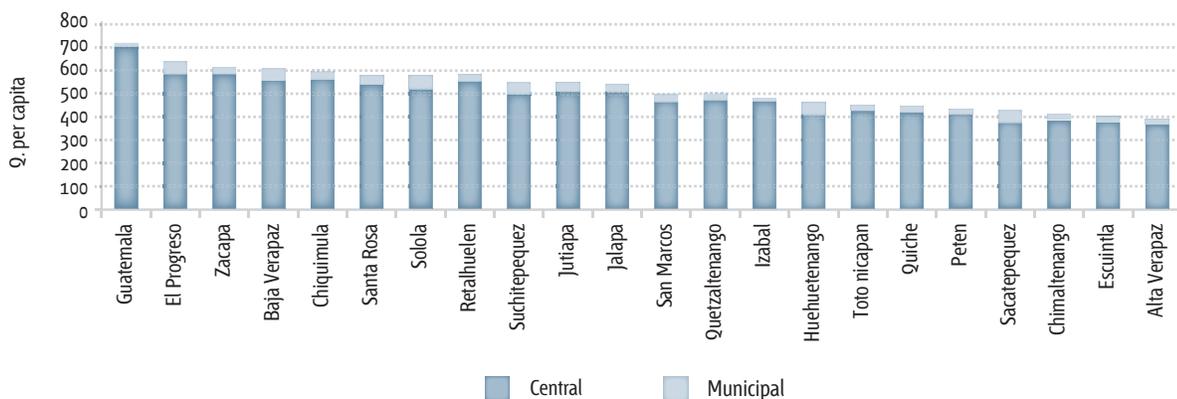
third of total spending. In the case of Huehuetenango (one of the poorest departments in the country), the school meal program represented 74 percent of the total spending on the five selected programs; a similar situation can be observed in Quiche, another poor department.

### Technical efficiency

**3.7. Comparisons between financial inputs and key outputs provide a first cut of the efficiency analysis.** Levels of municipal spending based on budget data from the Ministry of Finance<sup>71</sup> are compared to qualitative outputs and outcomes at different levels measured by key output indicators in education such as student's assessments results and completion rates, while controlling for the influence of socio-economic indicators such as adult literacy and chronic malnutrition rates. By controlling for proxies capturing differences in initial endowments among municipalities, this analysis provides a first exploration of linkages between spending, outputs and outcomes in basic education to identify areas where efficiency of spending can be improved.

**3.8. Preliminary analysis suggests that there is a weak relationship between the level of spending and student achievement at the municipal level.**

FIGURE 3.2: DISTRIBUTION OF EDUCATION EXPENDITURE BY DEPARTMENT (AVERAGE 2008-09)



Source: BOOST database using SICOIN data.

70. World Bank (2009).

71. The 2010 national budget allows for geographical classification by municipalities, disaggregating all economic and financial transactions carried out by public sector institutions by different regions of the country. However, spending through the MiFaPro program (representing 11 percent of total education spending in 2010) could not be assigned to particular municipalities and as such is not included in this analysis.

**For instance, higher public spending on education is not associated with higher school completion rates.** The two municipalities of San Sebastián and Tectitán in the Department of Huehuetenango (Figure 3.3) show very different 9th grade completion rates (12.4 percent and 35.5 percent, respectively) even though both record very low adult literacy rates and high malnutrition rates, and even though the municipality of San Sebastián spends more per pupil than Tectitán. Likewise, the municipalities of San Martín Zapotitlán and Tectitán show similar completion rates despite the fact that the former spends almost twice as much as the latter and has considerably higher adult literacy rates and lower malnutrition rates. It is important to highlight that these variations do not represent isolated cases of severe outliers but rather the norm within the entire territory, affecting the large majority of Guatemalan municipalities.

**3.9. Similarly, the relationship between education spending and test scores appears to be weak.** The Municipality of Guatemala, for instance – with higher per pupil spending, higher adult literacy and lower malnutrition rates than any other municipality – performs relatively worse than the municipalities of San Sebastián Huehuetenango, Santa Lucía Utatlán and Villa Canales, Guatemala (Figure 3.4). Similar analysis can be done by comparing, for instance, the municipality of Pasaco (Jutiapa), which has similar per pupil spending but higher adult literacy and lower malnutrition than Guatemala, with Senahú (Alta Verapaz), which has much lower adult literacy and higher levels of malnutrition, but higher test scores. Once again these patterns can be found across the entire landscape of Guatemalan municipalities indicating the need to further investigate the underlying determinants of these variations.<sup>72</sup>

**3.10. In addition, higher graduation rates and higher test scores are not necessarily correlated.** There are a substantial number of cases, such as Senahú

(Alta Verapaz) that have very low internal efficiency in terms of number of graduates and completion rates, but similar performance of those that actually graduate compared with municipalities with more number of graduates and higher completion rates, such as Pasaco (Jutiapa) (Map 3.1). Overall, the correlation between completion rates and graduates test scores for 12th grade at the municipal level is only 0.15 and for 9th grade only 0.05. In 30 percent of the overall sample, municipalities ranking in the top quartile in completion rates are in the bottom quartile of test scores. These patterns emphasize how high performance in completion rates is not necessarily correlated with high quality, as measured by higher test scores.

**3.11. The analysis suggests that demographics and other socio-economic factors – rather than the level of public education spending – may be responsible for driving the variations in outcomes across municipalities.** Here we propose two approaches to try to capture the combined influence of these factors in determining variations in outputs. First, we implement the data envelopment analysis (DEA) methodology<sup>73</sup> to derive efficiency scores using multiple outputs and multiple inputs (including “control” variables). Second, we run basic OLS regressions to estimate determinants of student achievement at the municipal level.

**3.12. Technical efficiency is not necessarily higher among richer municipalities.** Technical efficiency is defined as the degree to which the government obtains the greatest possible output with a given set of inputs.<sup>74</sup> To illustrate, Map 3.2 shows technical efficiency in education across Guatemalan municipalities. The majority of municipalities within the Departments of Baja Verapaz and Chiquimula in particular exhibit the lowest technical efficiency scores of the country while surprisingly several poor municipalities within the Huehuetenango Department and the *Franja Transversal del Norte*<sup>75</sup> territory reported high

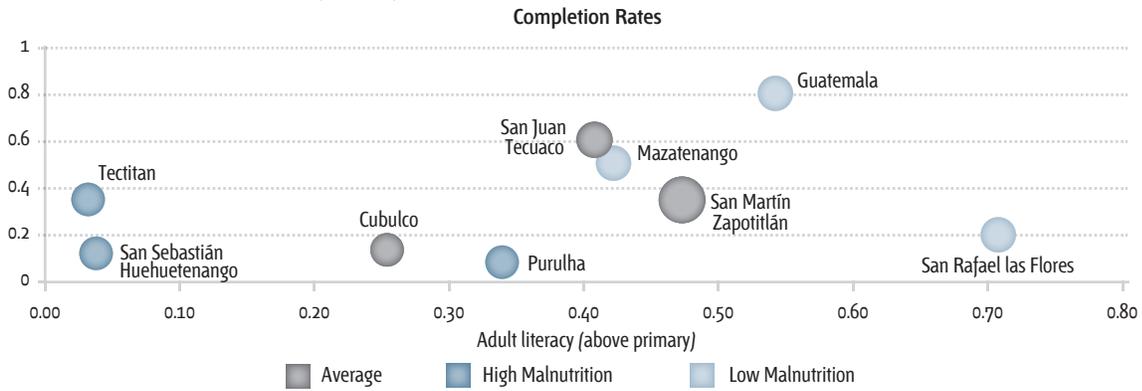
72. One potential explanation for these findings may, for instance, be migration to the capital city of adults educated in other parts of the country.

73. For more information on DEA, please see Annex 2.

74. It should be noted that the concept of technical efficiency has some limitations in cases like Guatemala's. In a context where overall public spending is very low, municipalities may be found to be very efficient at using the limited inputs available to achieve overall poor outcomes.

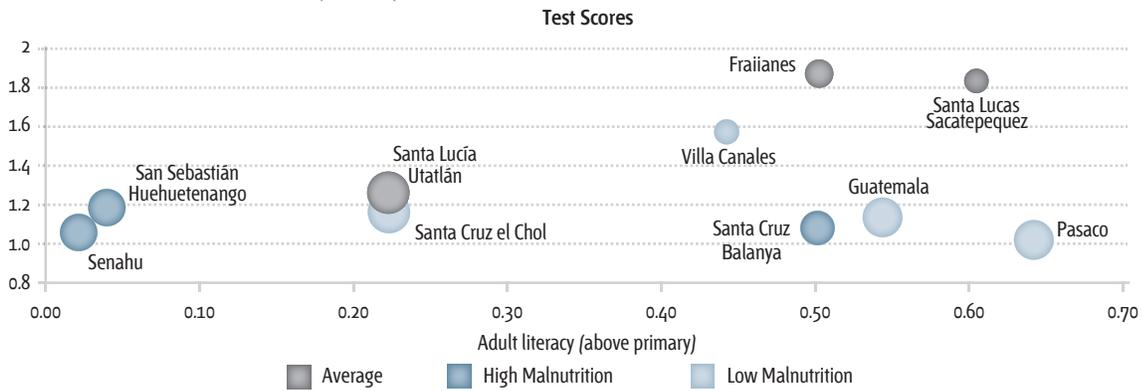
75. The area along the East-West transport corridor running from the Gulf of Honduras to the Mexican border in the West.

**FIGURE 3.3: RELATIONSHIP BETWEEN COMPLETION RATES (GRADE 9), ADULT LITERACY, SPENDING ON EDUCATION PER PUPIL (BUBBLE SIZE) AND MALNUTRITION RATES (COLOR) IN SELECTED MUNICIPALITIES (2010)**



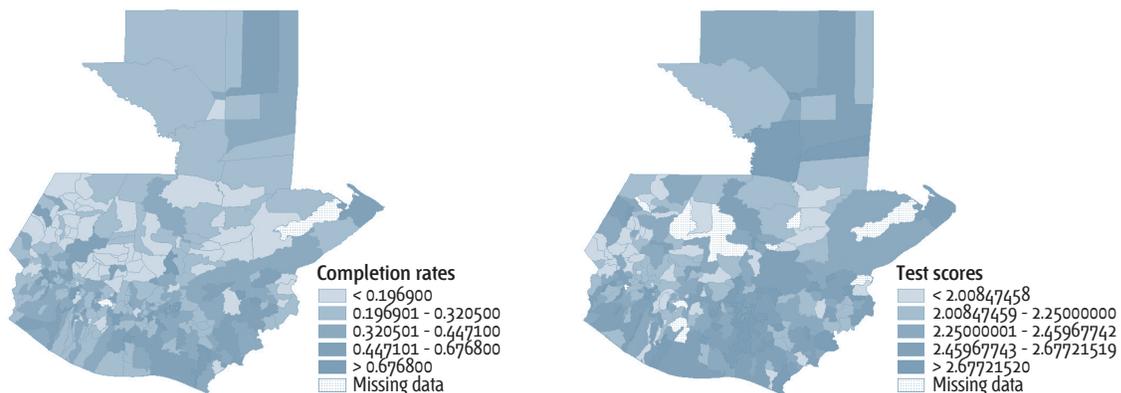
Source: BOOST database, Ministries of Education and Health.

**FIGURE 3.4: RELATIONSHIP BETWEEN TEST SCORES OF GRADUATES, ADULT LITERACY, SPENDING ON EDUCATION PER PUPIL (BUBBLE SIZE) AND MALNUTRITION RATES (COLOR) IN SELECTED MUNICIPALITIES (2010)**



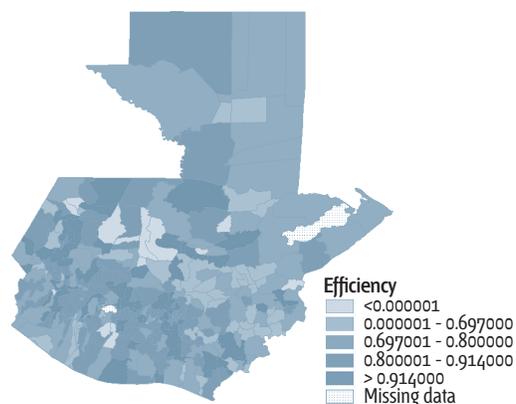
Source: BOOST database, Ministries of Education and Health.

**MAP 3.1: 9TH GRADE COMPLETION RATES VS. GRADUATE TEST SCORES AT MUNICIPAL LEVEL (2010)**



Source: BOOST database, Ministries of Education and Health.

**MAP 3.2: TECHNICAL EFFICIENCY IN EDUCATION ACROSS GUATEMALAN MUNICIPALITIES (2009)**



Source: BOOST database, Ministries of Education and Health.

technical efficiency scores once initial endowment were taken into effect. This finding is consistent with the conclusions of the 2005 Public Expenditure Review, which found that there was room for improving efficiency, i.e. improving outcomes with the current expenditure envelope.

**3.13. Municipalities' efficiency scores appear to be unrelated to whether they spend a lot or whether their needs are high.** The analysis of technical efficiency can be extended by mapping efficiency scores against indices of need (extreme poverty rates) and against overall spending at the municipal level. Two interesting lessons emerge: first, several municipalities appear to be inefficient whether measured against need or spending, or a combination of both. Second, in all the three variations, there appears to be clustering among efficient and inefficient municipalities. For example, most municipalities near the capital city of Guatemala and the Department of Sacatepéquez present high technical efficiency but low per-pupil spending. On the other hand, those in the Departments of Baja Verapaz and Chiquimula present low technical efficiency and high low per-pupil spending (Map 3.3). It is important to note that these findings and methodologies should only be interpreted as an entry point for a deeper analysis into the determinants of student achievement and their

linkages to spending. It would be relevant to carry out further research to explain what other factors are driving these results.

**3.14. Regression analysis suggests that public education spending does not explain student achievement at the municipal level.** Multiple regressions were run to further investigate determinants of variations in completion rates and test scores. One of the main results – summarized in Table A1.1 in Annex 1 – is that spending is never statistically significant with respect to explaining student achievement, as opposed to the majority of demographic and socio-economic indicators. While extreme poverty rates help explain student achievement both in terms of completion rates and test scores, adult literacy rates, malnutrition rates and presence of large indigenous population have a significant negative relationships to educational outcomes (test scores) but do not have much influence over completion rates. Conversely, the number of teachers and population densities are good predictors of student achievement in terms of completion rates but have no effect over student performance in national tests at any level.

### C. QUALITY OF PUBLIC EXPENDITURE IN THE HEALTH SECTOR<sup>76</sup>

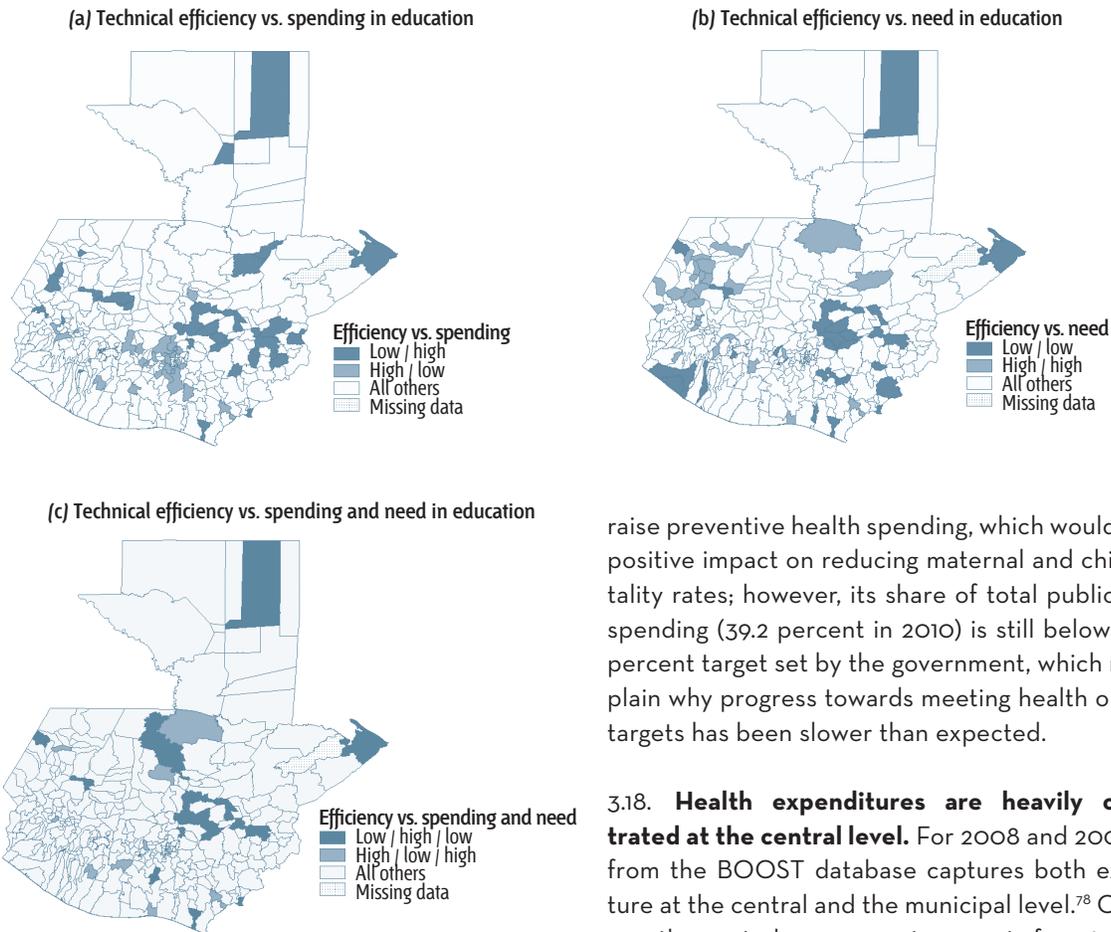
#### *Allocative efficiency*

**3.15. This section focuses on describing the efficiency of health expenditure at the department level from the allocation point of view.** Contrary to the education sector, most health indicators are not available at the municipal level, and the use of technical efficiency frontier calculation techniques is therefore limited.

**3.16. Despite a noticeable increase in public expenditure on health in Guatemala from 1.2 to 1.6 percent of GDP between 2004 and 2010, public spending levels remain low by international and regional standards.** Despite the increase in recent years, Guatemala continues to spend less (as a share of GDP) on health than other countries in the re-

76. This section focuses on describing the efficiency of health expenditure at the department level from the allocation point of view. Contrary to the education sector, most health indicators are not available at the municipal level, and the use of technical efficiency frontier calculation techniques is limited. We also look at the coverage and accessibility of public health services across socioeconomic groups.

### MAP 3.3: TECHNICAL EFFICIENCY IN GUATEMALAN MUNICIPALITIES



Source: BOOST database, Ministry of Education.

gion, and less than the average for middle income countries worldwide. As a result, the share of public spending in total health expenditure is the lowest: 35 percent in Guatemala compared to a LAC average of 50 percent and between 60 and 75 percent in El Salvador, Honduras, Costa Rica and Panama.<sup>77</sup>

**3.17. Despite the scarce resources, public spending remains skewed towards curative care.** Table 3.1 presents central government spending on health, including those executed by the Ministry of Health and Social Assistance, as well as other ministries and state secretaries (but excluding the Guatemalan Social Security Institute). There has been an effort to

raise preventive health spending, which would have a positive impact on reducing maternal and child mortality rates; however, its share of total public health spending (39.2 percent in 2010) is still below the 50 percent target set by the government, which may explain why progress towards meeting health outcome targets has been slower than expected.

**3.18. Health expenditures are heavily concentrated at the central level.** For 2008 and 2009, data from the BOOST database captures both expenditure at the central and the municipal level.<sup>78</sup> On average, the central government accounts for 96 percent of total public health spending. However, there is a significant amount of geographic variation: municipal shares in total public health expenditure range from 1.1 percent in the department of Retalhuleu to 18.8 percent in Suchitepéquez. In fact, there appears to be a mild positive correlation between expenditure in health at the municipal and the central level: more central spending in the sector is associated with more municipal spending.

**3.19. Health insurance coverage among the poor is extremely low.** According to the ENCOVI 2011, 89 percent of the population does not have health insurance, with the share reaching 97 percent in the lowest consumption quintile. However, outside of the formal insurance mechanism, the Ministry of Public

77. Data is for 2010. Source: World Development Indicators.

78. Municipal data includes spending on both health and social assistance, as further disaggregation is not available. However, the bulk of this spending is likely to be on health.

TABLE 3.1: CENTRAL GOVERNMENT SPENDING ON HEALTH\*

	2005	2006	2007	2008	2009	2010
<b>(share of GDP)</b>						
Preventive care	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
Curative care	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%
Public health	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health administration	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Others*	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.1%</b>
<b>(share of total)</b>						
Preventive care	31.8	33.9	35.4	33.2	36.1	39.2
Curative care	48.3	44.8	42.1	44.0	44.4	41.9
Public health	0.6	0.7	0.6	0.8	0.7	0.6
Health administration	11.5	13.3	13.4	11.8	12.0	10.6
Others*	7.9	7.3	8.4	10.2	6.9	7.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*Excluye el Instituto Guatemalteco de Seguridad Social. Fuente: SICOIN.

Health and Social Assistance (MPHSA) is entitled to provide free health services to the entire population, so the poor can receive care at public health centers even without insurance coverage. Nevertheless, monetary issues remain the main reason why the poor do not use public health services.<sup>79</sup> Other reasons are on the supply side (transportation, distance, waiting times or insufficient health workers), but there appear to have been some improvements in this respect between 2006 and 2011, according to household survey results.

### Technical efficiency

3.20. **This section looks at some of the traditional-ly considered outcome indicators in the health sector, such as infant mortality rates and immunization rates** (see Herrera and Pang, 2005). However, unlike in the case of education, health outcome information is not available at the municipal level. Working at the department level (22 observations) coupled with data limitations prevent the development of a robust

efficiency frontier analysis. Considering these caveats, the analysis in this section remains at a stylized facts level, mainly describing observed trends in the allocation of health spending and outcomes, and the potential correlation between them.

3.21. **There is a significant concentration of health spending in the department of Guatemala.** At Q.287 per capita, Guatemala received in 2008 and 2009 almost double the amount of the average department (Q.151), accounting for 36.6 percent of total central government health spending. Sacatepéquez (Q.212) and Zacapa (Q.200) follow Guatemala in terms of expenditure per capita. Departments in the southwest of the country tend to have lower health spending per capita (Chimaltenango, Q.87; San Marcos, Q.98; Suchitepéquez, Q.99; Sololá, Q.107) (Map 3.4). The distribution of health workers is also heavily concentrated in Guatemala (with 30 doctors per 10,000 people), Quetzaltenango (15) and Sacatepéquez (10), compared to the national average of 4.7 (Figure 3.5). There are also more nurses in Guatemala (20 per

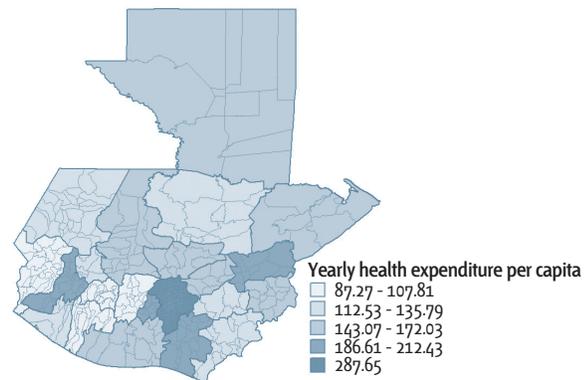
79. This may be due to the fact that many health care facilities lack the required personnel, medicines and other inputs to provide free services, thus requiring users to seek care outside the public health system where payment is required.

10,000 people) and Sacatepéquez (13), compared to the national average of 7.7. On the other hand, there is no clear relationship between moderate poverty levels and per capita expenditure on health services across departments.

**3.22. This unequal distribution of resources is due to the criteria used in the allocation of health expenditures, which reinforce historical trends.** Until recently, public resources dedicated to health were distributed mainly based on historical spending trends, with a slight increase for inflation. Regional allocations were based on human resources, number of beds and number of health establishments. As a result, poorer regions with inadequate health service coverage were assigned the lowest amount of funds (regardless of population increase or epidemiological profile). Few incentives existed to improve service delivery and performance.<sup>80</sup> It is hoped that the introduction of a pilot of results-based financing in health and nutrition in selected municipalities in 2010 will improve the resource allocation among sub-national governments. In addition, the expansion of MiFaPro may also have created pressure on local governments to improve the availability of health services so that families can comply with their co-responsibilities. However, deficiencies in budget management continue to present problems for the result-orientation of public expenditure (see Chapter 5 for more information).

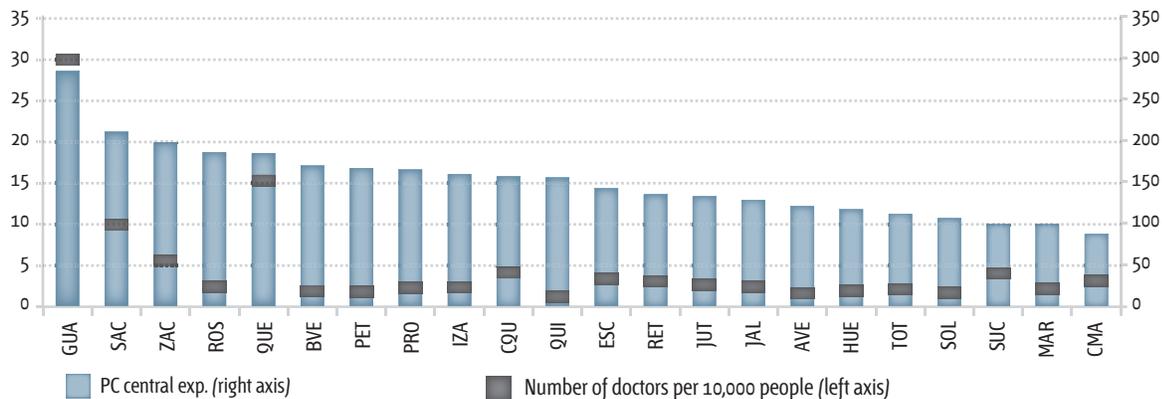
**3.23. Health outcomes also vary greatly from department to department.** For instance, vaccination rates are highest in the departments in the center, west and southeast of the country, even though some of the departments have low per capita health spending. Baja Verapaz (87.5 percent) and Chiquimula (85 percent) are the departments with the highest vaccination rates, compared with Izabal (56.9), Sacatepéquez (57.3) and Sololá (59.8). With respect to infant mortality rates, Chiquimula (55 per thousand), Santa Rosa (51), Totonicapán (51), Sololá (49) and San Marcos (48) present the highest rates, whereas mortality is lower in Guatemala (16) and Quetzaltenango (19)

MAP 3.4: PER CAPITA EXPENDITURE ON HEALTH SERVICES BY DEPARTMENT (AVERAGE FOR 2008-09)



Source: BOOST database using SICOIN data.

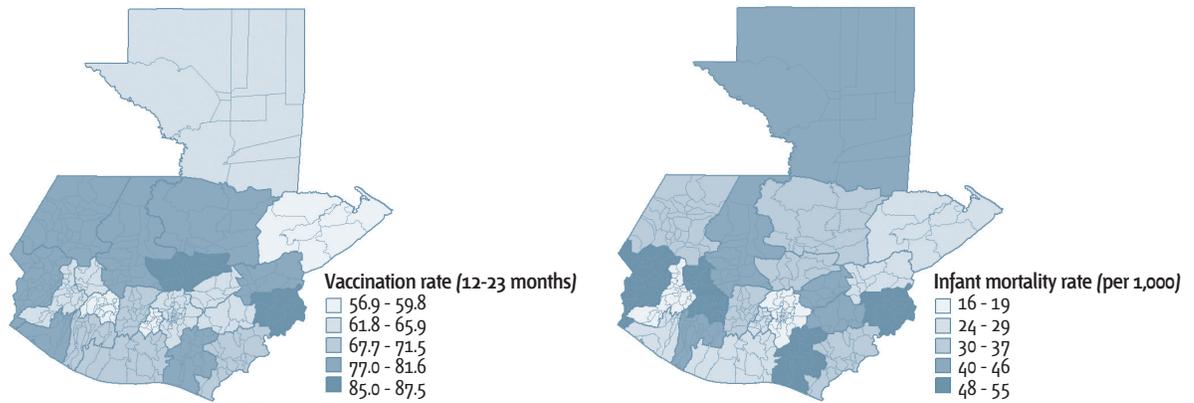
FIGURE 3.5: DISTRIBUTION OF CENTRAL GOVERNMENT HEALTH EXPENDITURE AND DOCTORS BY DEPARTMENT (AVERAGE 2008-09)



Source: BOOST database using SICOIN.

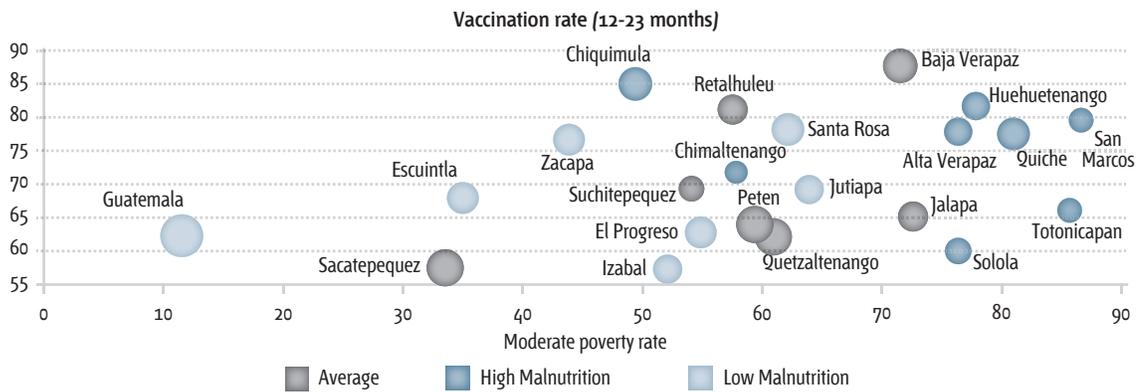
80. World Bank (2010c). The 2005 PER also found deficiencies in the way resources are allocated and targeted in the sector, as well as in the strong centralization of planning, budgeting and management functions.

MAP 3.5: VACCINATION AND INFANT MORTALITY RATES BY DEPARTMENT



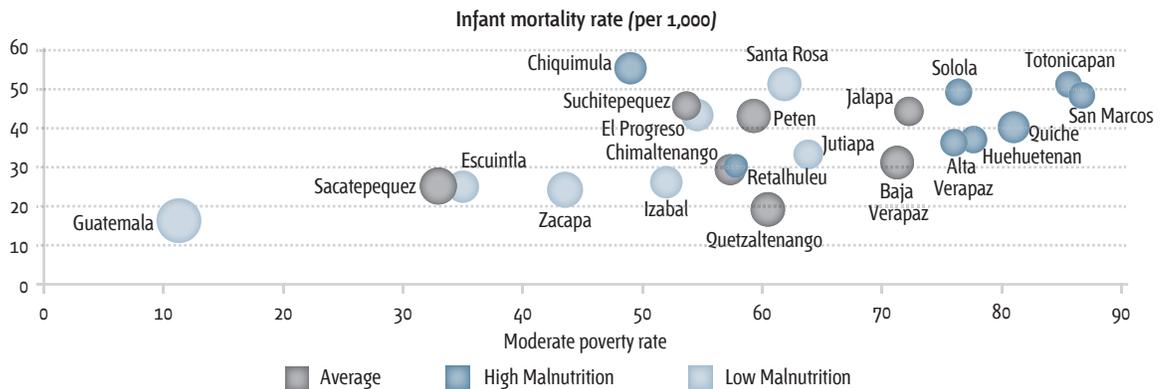
Source: ENSMI 2008-09.

FIGURE 3.6: RELATIONSHIP BETWEEN VACCINATION COVERAGE, POVERTY, PER CAPITA SPENDING ON HEALTH (BUBBLE SIZE) AND MALNUTRITION RATES (COLOR) BY DEPARTMENT



Sources: BOOST database 2008-09, ENSMI 2008-09, INE, 2009.

FIGURE 3.7: RELATIONSHIP BETWEEN INFANT MORTALITY, POVERTY, PER CAPITA SPENDING ON HEALTH (BUBBLE SIZE) AND MALNUTRITION RATES (COLOR) BY DEPARTMENT



Sources: BOOST database 2008-09, ENSMI 2008-09, INE, 2009.

(Map 3.5). High per capita health expenditure and a strong concentration of medical facilities and staff in the department of Guatemala may be an important determinant for the lower mortality rates observed in that department.

**3.24. Vaccination coverage does not seem to be correlated with health care expenditure or needs indicators.**<sup>81</sup> There are no substantial differences in vaccination rates across departments with dissimilar poverty levels, except for departments with poverty rates under 40 percent which, against what would be expected, exhibit low vaccination coverage (Guatemala, Escuintla, Sacatepéquez). On the other hand, a group of departments in the northwest, characterized by high malnutrition rates, significant poverty incidence and average or low spending per capita, has high vaccination coverage (Quiché, Huehuetenango, San Marcos, Alta Verapaz) (Figure 3.6).

**3.25. Mortality under five and infant mortality seem to be inversely correlated to public expenditure on health care services, but only to a limited extent.** Chiquimula and Santa Rosa present relatively high spending per capita levels and high mortality rates. Some western departments of the country (Sololá, Totonicapán, San Marcos) show high mortality rates, clearly correlated to high malnutrition and an extremely high poverty incidence. On the other extreme, Guatemala, Sacatepéquez, and Zacapa spend more on health, and have lower poverty rates, better malnutrition figures and low infant mortality rates. Similar to vaccination rates, infant mortality rates do not seem to be correlated to the number of doctors per capita, except for the outliers Guatemala, Sacatepéquez and Quezaltenango, where the number of doctors is more than twice that of the average department, and infant mortality rates are thus much lower. This may suggest a threshold effect, whereby departments with 10 or more doctors per 10,000 people have substantially improved health outcomes.

**3.26. At the same time, most of the departments presenting high infant mortality rates are also characterized by a low percentage of births attended by doctors.** This is the case of Sololá, Totonicapán or Chiquimula; Santa Rosa is an exception that combines high infant mortality rates with large share of births attended by a doctor and above average health per capita expenditure. The poorest departments, most of them in the northwest of the country, are clearly lagging behind in terms of percentage of births attended by a doctor. Since these departments do not present an average ratio of doctors per capita ratio that is significantly lower than other regions, a possible explanation for this puzzle is the existence of accessibility obstacles for the poor (distance to hospitals and care centers, lack of information, etc.).

**3.27. As for the coverage of services at the first level of primary health, there does not seem to be a clear relationship between average health expenditure per capita and coverage.** The exception is the department of Guatemala, where both levels are extremely high compared to other departments. In the range of 85-95 percent coverage we find very dissimilar departments in terms of poverty levels, malnutrition, adult literacy and public expenditure per capita. For instance, San Marcos has low spending, low literacy and high malnutrition rates; on the other hand Quetzaltenango displays relatively high public spending, above average adult literacy rates and average malnutrition, with lower primary health care coverage than San Marcos.

#### *D. QUALITY OF PUBLIC EXPENDITURE IN THE ROAD TRANSPORT SECTOR*<sup>82</sup>

**3.28. Guatemala's road network has deteriorated in part due to consecutive natural disasters.** The registered road network has a total extension of 15,780 kilometers, with about 11,600 kilometers of main, secondary, and tertiary network (60 percent paved), and 4,181 kilometers of rural roads.<sup>83</sup> According to an as-

81. It would be necessary to determine the exact amounts spent on vaccination campaigns in order to more consistently assess the relationship; however, budget lines for vaccination programs are not available in the SICOIN data used to construct the BOOST database.

82. Due to the lack of information about relevant outputs for the sector (e.g. number kilometers built, rehabilitated or worked on, and the condition of the road network) at the sub-national level, an efficiency analysis similar to that conducted for the social sectors could not be carried out. This section therefore presents an overview of the transport outcomes at the national level, and a detailed analysis of public expenditures in the sector.

83. However, DGC estimates that the total road network including municipal roads is about the double of the classified network. In 2000 the total road network length was 26,000km, thus DGC currently estimates the total road network to be between between 28,000 and 30,000km.

assessment carried out by the Road Conservation Executing Agency (*Unidad Ejecutora de Conservación Vial - COVIAL*)<sup>84</sup> before Hurricane Agatha in 2010 of 77 percent of the paved network (5,362 kilometers), the condition of the road network is as follows: 62 percent in good condition, 14 percent in average condition, and 24 percent in poor condition. It is important to highlight that the assessment was carried out for the paved network in best condition and before two events that significantly damaged the road network, Agatha (2010) and the storm 12-E (2011). Therefore, these estimates do not present a complete picture of the network. According to estimates by the General Directorate of Roads (*Dirección General de Caminos - DGC*) after the storm 12-E in October 2011, 65-70 percent of the paved network was in bad condition.<sup>85</sup>

### 3.29. In international comparisons, the condition of the Guatemalan road network is about average.

However, in the last years the score of the Guatemalan road network has deteriorated based on international standards and in comparison with Latin American and Caribbean (LAC) countries (Table 3.2). In 2008, only three LAC countries (Chile, El Salvador, and Uruguay) were better ranked than Guatemala. The following years Panama and Mexico improved and in 2011 Ecuador and Dominican Republic were also better placed than Guatemala.

3.30. **Given Guatemala's vulnerability to natural disasters, investment needs in the transport sector are also driven by damages caused by hurricanes, earthquakes and volcanic eruptions.** Every year Guatemala is hit by the negative impacts of the rainy and stormy seasons, and during the last ten years has suffered the negative impact of four strong natural disasters: Hurricanes Stan (2005) and Agatha (2010), and the eruption of the Volcano Pacaya (2010). In October 2011, the Tropical Depression 12-E

hit Mexico and the Central American region, leaving significant damages in these countries, including Guatemala. The disasters of 2010 (Agatha and Pacaya) caused an estimated US\$305 million (0.74 percent of GDP) in damages in the transport sector alone, while 12-E added another US\$35 million (0.09 percent of GDP).<sup>86</sup> Reconstruction investment needs were estimated at US\$372 million (close to 1 percent of GDP) over a 5-year period (2010-2014), putting additional strains on the already limited budget for the sector (see Annex 4 for more information).

3.31. **Guatemala budgets about 1.4 percent of GDP per year for the road sector.** As a share of GDP, Guatemala's investment in road transport is lower than that of Panama (1.9 percent) and Nicaragua (1.8 percent), but above Honduras (0.9 percent) and El Salvador (0.3 percent) (Table 3.3).

3.32. **Compared with other sectors, municipalities carry a larger share of public expenditures in the transport sector.** In 2008-09 (the years for which municipal expenditure data on transport is available), 79 percent of total public expenditures for transport was channeled through the central administration, and 21 percent by the municipalities. This ratio of public spending through the municipalities is higher for the transport sector than for total public spending (14 percent).<sup>87, 88</sup> The municipal share also varies from department to department - from 8 percent in Zacapa to 54 percent in Totonicapán. On a per capita basis, public expenditures on transport range from Q.845 in the department of Retalhuleu to Q.203 in Chimaltenango (Figure 3.8). In general, there is relatively little correlation between central and municipal government spending in the sector: those departments that receive most resources from the central government do not necessarily spend more from the municipal resources in the sector.

84. The annual assessment of the road network by COVIAL is through a simulator that includes subjective factors. The last study carried out to assess the structural condition of the road network was in 2004.

85. Currently, there is an initiative in place to update the road inventory and to assess the condition of the road surface with financing from the Japanese Agency for International Cooperation (JICA). The evaluation will include around one third of the network (5,600 kilometers) in two phases. The first phase that includes 4,100 kilometers will be completed before the end of December 2011 and the second phase of 1,500 kilometers will be completed by the end of the first quarter of 2012.

86. Government of Guatemala (2011) and CEPAL (2011).

87. Municipal data was available for 2008-2009. Even though municipal data does not subdivide transport spending by transport type (e.g. road transport), given the nature of municipal spending and transport services in Guatemala, most transport spending goes to road transport, instead of air, water, railway, and other types of transport.

88. One reason for this higher share of spending in the transport sector is that municipalities are required to spend transfers originating from the fuel tax on roads and highways.

**TABLE 3.2: CONDITION OF THE ROAD NETWORK IN SELECTED LATIN AMERICAN COUNTRIES**

	2008-09	2009-10	2010-11	2011-12
Chile	5.5	5.8	5.9	5.7
El Salvador	5.0	5.3	5.4	4.8
Mexico	3.5	4.0	4.1	4.3
Panama	3.8	3.8	4.1	4.2
Ecuador	2.6	2.8	3.5	4.2
Uruguay	4.1	4.4	4.4	4.0
<b>Guatemala</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>	<b>3.9</b>
Dominican Republic	3.6	3.6	3.6	3.9
Honduras	3.7	3.5	3.5	3.4
Nicaragua	2.5	2.9	3.2	3.3
Argentina	2.9	3.2	3.3	3.2
Peru	2.6	2.9	3.3	3.2
Colombia	2.9	2.8	2.9	2.9
Brazil	2.5	2.8	2.9	2.8
Costa Rica	2.2	2.7	2.8	2.5
Guatemala's position among all countries	52	55	61	72
Number of countries	134	133	139	142

Source : The Global Competitiveness Report – World Economic Forum  
 Note: Scores ranges from a scale from 1= underdeveloped, 7=extensive and efficient

**TABLE 3.3: PUBLIC EXPENDITURE ON ROAD TRANSPORT IN CENTRAL AMERICAN COUNTRIES\***

	2006	2007	2008	2009	2010
<b>% of GDP</b>					
Panama	1.2%	1.3%	1.6%	2.3%	1.9%
Nicaragua	1.9%	1.7%	1.5%	1.7%	1.8%
<b>Guatemala</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>
Honduras	0.9%	1.1%	1.5%	2.0%	0.9%
El Salvador	0.4%	0.3%	0.3%	0.3%	0.3%

\*Data based on approved budgets. Source: National Ministries of Finance.

**3.33. Central government expenditures on transport are mostly channeled through the Ministry of Communications, Infrastructure and Housing (Ministerio de Comunicaciones, Infraestructura y Vivienda, MICIVI),<sup>89</sup> and the vast bulk of public expenditures on transport by the central administration are allocated to the road network (96 percent).** MICIVI's expenditures during the last five years on average amounted to Q.4.5 billion, of which Q.3.5 billion were channeled to the road sector. Most road transport expenditures of MICIVI are channeled through DGC (56 percent), although COVIAL has also played a significant role in investments in the road sector in the past 5 years (43 percent). COVIAL's participation in investments reached its highest level in 2008 and 2009, even surpassing DGC's investments (58 and 52 percent, respectively). Even though COVIAL's expenditures were still high in 2010, it is expected that with the new decree approved in January 2010 that reinforced COVIAL's responsibilities for maintenance only, the percentage of expenditures channeled through COVIAL should decrease to the levels observed in 2006-2007 (32 and 28 percent, respectively). The Social Solidarity Fund (*Fondo Social de Solidaridad*, FSS) has thus far executed only a small percentage of expenditures for road transport in 2010 (3 percent).

**3.34. MICIVI's capital investments for the past 5 years have represented 90 percent of the ministry's total expenditures.** The main programs administered by MICIVI in the road sector are: *Development of the Road Network* (which receives 82 percent of the funds) and *Reconstruction Programs* (18 percent) due to natural disasters.<sup>90</sup> *The Development of the Road Network Program* has two subprograms, the first one *Road Infrastructure*<sup>91</sup> mostly

executed by DGC (7 percent through FSS in 2010) and the second one *Maintenance by Contract of the Road Network*<sup>92</sup> executed by COVIAL. Expenditures under the *Maintenance Program* by COVIAL during the last three years have surpassed the amount of the *Road Infrastructure Program* by DGC. The road investments of the *Reconstruction Program* are channeled through DGC and COVIAL, where DGC has executed the larger amount (79 percent as an average, reaching 93 percent in 2009).

**3.35. Both DGC and COVIAL have programs in road maintenance and construction.** Table 3.5 presents the investment subprograms under the main MICIVI program 11 - *Development of the Road Network*. Three sub-programs under the DGC together accounted for 81 percent of the total: Pavement of the Road Network (31 percent), Rehabilitation of the Road Network (27 percent), and Construction and Expansion of the Road Network (23 percent). The expenditures under maintenance activities by DGC average 11 percent of DGC subprograms.<sup>93</sup> COVIAL, whose exclusive responsibility should be the maintenance of the road network, has been increasingly channeling public funds for new investments under the budget project line *Improvement of the Road Network*.<sup>94</sup> This project line channels the highest amount of funds executed by COVIAL. It accounted for only 34 percent of COVIAL's total spending in 2006, but increased up to 60 percent in 2010. Thus, the division between the two main subprograms under DGC and COVIAL is not synonymous with the distinction between construction and maintenance. Whereas the average of the last three years of MICIVI funds channeled through COVIAL for the road network amount to 60 percent, the percentage channeled for maintenance is only 29 percent.

89. There are other institutions that execute road works in Guatemala, such as the National Fund for Peace, the National Fund for Development, the Secretary of Executive Coordination and the Rural and Urban Development Councils. These institutions contribute between 10 and 16 percent of annual central government spending in the road sector.

90. Given the geographical location of Guatemala, there have been reconstruction programs due to three specific natural disasters for the analyzed period - since 2005.

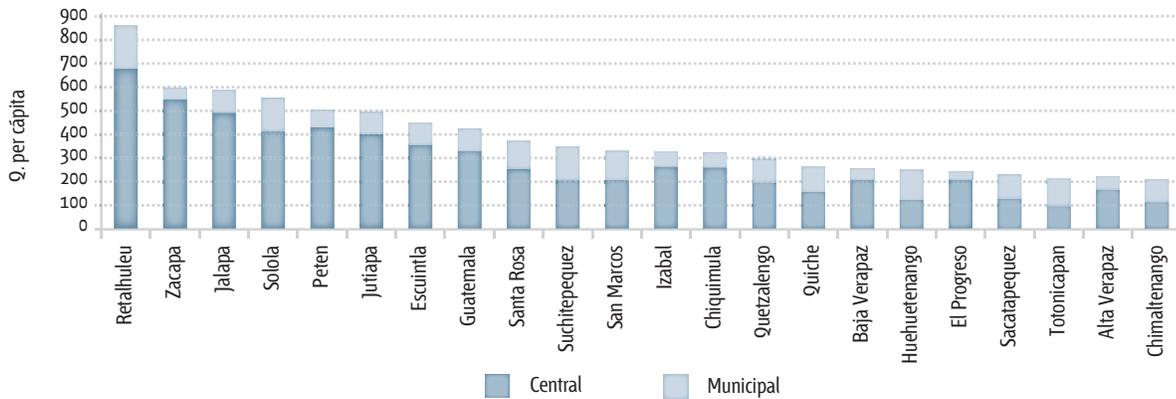
91. This subprogram includes pre-investment studies and designs.

92. This subprogram includes the supervision.

93. DGC maintenance program is carried out by force account through DGC's regional offices; whereas COVIAL maintenance programs are all under contracts with firms. COVIAL maintenance program covers the paved network and some unpaved secondary roads (*Transversal del Norte*, 7E, 7W). DGC maintenance program covers the rest of the classified network that is not covered by COVIAL (in the pace that the current personnel and equipment allow them).

94. The programmatic budgetary allocation divides the budget first by programs, second by subprograms and third by projects. *Improvement of the road network* means increasing the road design level to a higher category (usually increase the width) so the road can serve a greater level of transit; *Rehabilitation* means rebuilding road sections or structures to reestablish the quality of the road surface when this has been deteriorated; *Reconstruction* means rebuilding not only the road surface, but also the road base and sub-base when they have been already destroyed.

**FIGURE 3.8: CENTRAL AND MUNICIPAL EXPENDITURE IN ROAD SECTOR BY DEPARTMENT (IN QUETZALES PER CAPITA, 2008-09)**



Source: BOOST database using SICOIN data.

**TABLE 3.4: MICIVI EXPENDITURE IN THE ROAD TRANSPORT SECTOR (Q. MILLIONS)**

	2005	2006	2007	2008	2009	2010
<b>By institution</b>						
DGC	1,000	1,852	2,849	1,540	1,606	1,937
COVIAL	697	882	1,081	2,084	1,707	1,741
FSS	-	-	-	-	-	102
<b>Total</b>	<b>1,697</b>	<b>2,734</b>	<b>3,929</b>	<b>3,623</b>	<b>3,313</b>	<b>3,781</b>
<b>By program</b>						
Development of the Road Network (Progr.11)	1,685	2,135	3,369	2,985	2,692	3,090
Road reconstruction (Prog.97+98)	12	599	561	638	621	691
<b>Total</b>	<b>1,697</b>	<b>2,734</b>	<b>3,929</b>	<b>3,623</b>	<b>3,313</b>	<b>3,781</b>

Source: BOOST database using SICOIN data.

**3.36. Financial needs in the sector are generally much higher than budgetary allocations.** For example, DGC's estimation of required financial resources for 2012 is around four times the executed budget of 2010 (Q.8.2 billion), including signed contracts for reconstruction works after Agatha. In general, financial requirements include commitments made under contracts that have been signed but for which work has not been executed, but also for work that has been executed under signed contracts but has not been paid.<sup>95</sup> Generally the former is significantly larger than the latter. As a result of the chronic deficit in budgetary allocations, MICIVI tends to benefit

during the budget year from inter-ministry transfers, primarily from ministries that are unable to execute all their allocated resources. In recent years, the additional resources allocated during the budget year through inter-ministry or intra-ministry transfers were allocated to the Reconstruction Program of DGC and its three main subprograms (constructions and expansion, rehabilitation and pavement) and the improvement program of COVIAL.

**3.37. Budget overruns are rampant in road sector projects.** Within DGC and COVIAL, it is general practice that contracts are extended in terms of time

95. Such payment arrears currently reach around Q.1.6 billion, roughly equivalent to the total budget executed by DGC annually.

**TABLE 3.5: MICIVI'S INVESTMENT AND MAINTENANCE EXPENDITURES UNDER PROG. 11 (Q. MILLIONS)**

	2006	2007	2008	2009	2010
<b>DGC – Subprogram Road Infrastructure</b>	<b>1,468</b>	<b>2,478</b>	<b>1,047</b>	<b>1,031</b>	<b>1,320</b>
Maintenance of the Road Network by force account *	122	120	109	134	132
Construction and Expansion of the Road Network	534	915	250	244	286
Rehabilitation of the Road Network	416	790	278	301	345
Pavement of the Road Network	347	613	340	247	455
Other	49	40	70	105	102
<b>COVIAL – Subprogram Maintenance of the Road Network by Contract</b>	<b>668</b>	<b>891</b>	<b>1,938</b>	<b>1,661</b>	<b>1,668</b>
Maintenance of the Paved Road Network	172	201	242	160	127
Maintenance of the Un-Paved Road Network	143	155	200	164	119
Improvement of the Road Network **	230	407	1,072	1,086	980
Other	123	127	424	250	442
<b>TOTAL</b>	<b>2,135</b>	<b>3,369</b>	<b>2,985</b>	<b>2,692</b>	<b>2,988</b>

Source: BOOST database using SICOIN data.

and cost increases. Overruns should be more the exception than the rule. The review undertaken by CoST in the baseline study found that among the 16 projects reviewed in 8 agencies, the most significant variations of works contracts were within DGC and COVIAL, with average overruns of more than double of original terms, 123 percent in time and 103 percent in cost (see Chapter 4 for more information). Overruns of time and cost produce an additional burden to administrative procedures and cause delays or even stoppages in project execution. When roads projects are not terminated according to the contracts, there is a risk that the works undertaken could suffer damage, causing transit delays, and road accidents because usually signaling and protection works are among the last things to be executed. A considerable amount of work may also have to be re-done, which implies a waste of public resources.

**3.38. As a result, budget overruns have been common in MICIVI in recent years.** In the past two years, budget execution rates for MICIVI, DGC and COVIAL were close to 100 percent, while there was a significant over-execution during the years 2006-2008 (rates between 120 percent and 200 percent of budgeted resources). These higher execution rates are

in part due to the reduction in allocated resources to MICIVI and its units for 2007 and 2008, but are mostly due to inefficiencies in the planning and management of public resources and the contracts for works and services within the sector.

## E. CONCLUSIONS AND RECOMMENDATIONS

**3.39. Better targeting of social spending is needed.** The analysis suggests that public education and health spending does not benefit regions with the greatest need. While some education programs actually reach poor areas such as the school meal program, some others such as text books are concentrated in urban and semi-urban areas. Spending allocation is also carried out without considering student performance and educational outcomes, such as completions rates in 6th and 9th grades. Similarly, in the health sector, there is a high concentration of public expenditure in the departments of Guatemala, Sacatepéquez and Santa Rosa. In the case of the department of Guatemala, this has to do to some extent with the fact that the country's two largest hospitals are located there. It may also reflect the fact that health remains a centralized sector and some of its expenditures continue to be registered

in the department of Guatemala (due to the location of the Ministry of Health and Public Assistance), even though the recipient or beneficiary department may be a different one. On the other hand, except for Quetzaltenango, less money per capita is allocated to departments in the southwest of the country. The lack of clear prioritization in the allocation of resources in the social sectors does not allow for a maximization of the benefits for the most vulnerable parts of the population.

**3.40. Monitoring and evaluation systems should be strengthened to facilitate deeper analysis of the determinants of sectoral outcomes.**

A key finding from the analysis is that there exist large disparities in spending performance in education across the territory. Disparities in the technical efficiency of public education spending exist even after controlling for a variety of socio-economic factors, suggesting that better data and more analysis would be needed to delve into the determinants of student achievement and their linkages to education spending at the municipal level. In the transport sector, the lack of outcome and output information at the municipal level represents a challenge for decision makers to adequately measure the impact of public investment in the sector. Systematic information is needed to allow making informed decisions among programs and sub-programs and among departments and municipalities in the country.

**3.41. The analysis revealed a weak relationship between education and health spending and outcomes, suggesting that greater coordination among social programs could be important.**

In the health sector, immunization rates do not show a clear-cut relationship either with public spending on health or with poverty levels across departments. Only infant mortality and mortality under five indicators show a negative (but not significant) relationship with public spending on health. The percentage of children that, according to the 2008/09 National Maternal Infant Health Survey (*Encuesta Nacional de Salud Materno Infantil*, ENSMI), has respiratory diseases, diarrhea and other illnesses appears to be much more related to living conditions and mortality rates in the different geographic areas, rather than variations in pub-

lic expenditure across departments; this could be pointing to potential deficiencies in preventive care services. Results from the household survey confirm that access to health care services remain a problem, especially affecting pregnant women in the poorest quintile living in rural areas. Thus, efforts could be aimed at increasing access to health facilities and doctors in the less-favored areas. In both education and health, outcomes appear to be primarily driven by demographics and other socio-economic indicators. This suggests that in order to increase the effectiveness of expenditures in these sectors, closer coordination with other social programs is needed.

**3.42. Greater results orientation of the budget could help ensure that resource allocations are aligned with sectoral priorities.**

It appears as though inequities in resource allocations currently reinforce historical trends and existing endowments. Regional allocations of the health budget, for instance, have been based on the number of beds and health service entities in each location. As a result, the poorest regions – which tend to have fewer health facilities – receive less funds, regardless of demographic or epidemiologic needs.<sup>96</sup> The recent progress to pilot results-based budgeting in the Ministry of Health is promising and represents a step in the right direction.

**3.43. In the transport sector, the need to improve road infrastructure and reduce the net requirement of fiscal resources for the road sub-sector continue to be a priority.**

Investments in the road sector are important to keep up the provision of road infrastructure according to the demands of transit of goods and people for the competitiveness of the economy and trade. The constraints of availability of resources calls for the need to use the scarce resources more effectively, improving road assets management, preparing good designs and build infrastructure with sound technical standards that allow the infrastructure to resist the demands of transit and weather conditions of natural events, but also guarantee adequate maintenance of the road infrastructure to extend its life cycle.

**3.44. There are a number of options that could be analyzed in more detail to improve the condition**

96. World Bank (2012).

TABLE 3.6: EXPECTED IMPACT OF ALTERNATIVE FINANCING OPTIONS

	Term on fiscal impact	Impact on fiscal resources	Impact on users
Concession Escuintla-Puerto Quetzal	+++	+	+
Bypasses	++	++	++
Urban road networks	+	+++	+++
CREMAs	+++	+	++

Source: Barbero (2009).

**of the road network that could also reduce the fiscal pressure for the sector.** These options include (i) including private participation for the financing of new infrastructure (or significant work improvements) and charging user tolls; and (ii) combining rehabilitation and maintenance activities under performance-based multi-year contracts. A preliminary analysis in 2009<sup>97</sup> identified the concession of the route Escuintla-Puerto Quetzal and the Multi Annual Contracts for Rehabilitation and Maintenance (CREMAs) as the options that could be implemented in the short term (see Table 3.6). The CREMAs are likely to have a higher impact on lowering the public fiscal pressure and improving quality for the users. A third option is the construction of bypasses in specific points of the road network (along the CA-2 west and CA-2 east, and eventually on the CA-9 and CA-1) that could be built through concessions and would reduce the congestion in these routes. The fourth option that would contribute even more to reducing the fiscal pressure on public resources for the sector is the construction of urban road networks. A comprehensive project like this would have the highest impact in public financing and for users given that would include the participation of the private sector or public private partnerships for the financing and would provide higher standard roads for transit. The benefits for the road users as a result of the improved road infrastructure through the mentioned options include the reduction on travel time, travel cost, and traffic accidents.

### 3.45. The approval of the Law on Public-Private Partnerships in 2010 is an important step in the

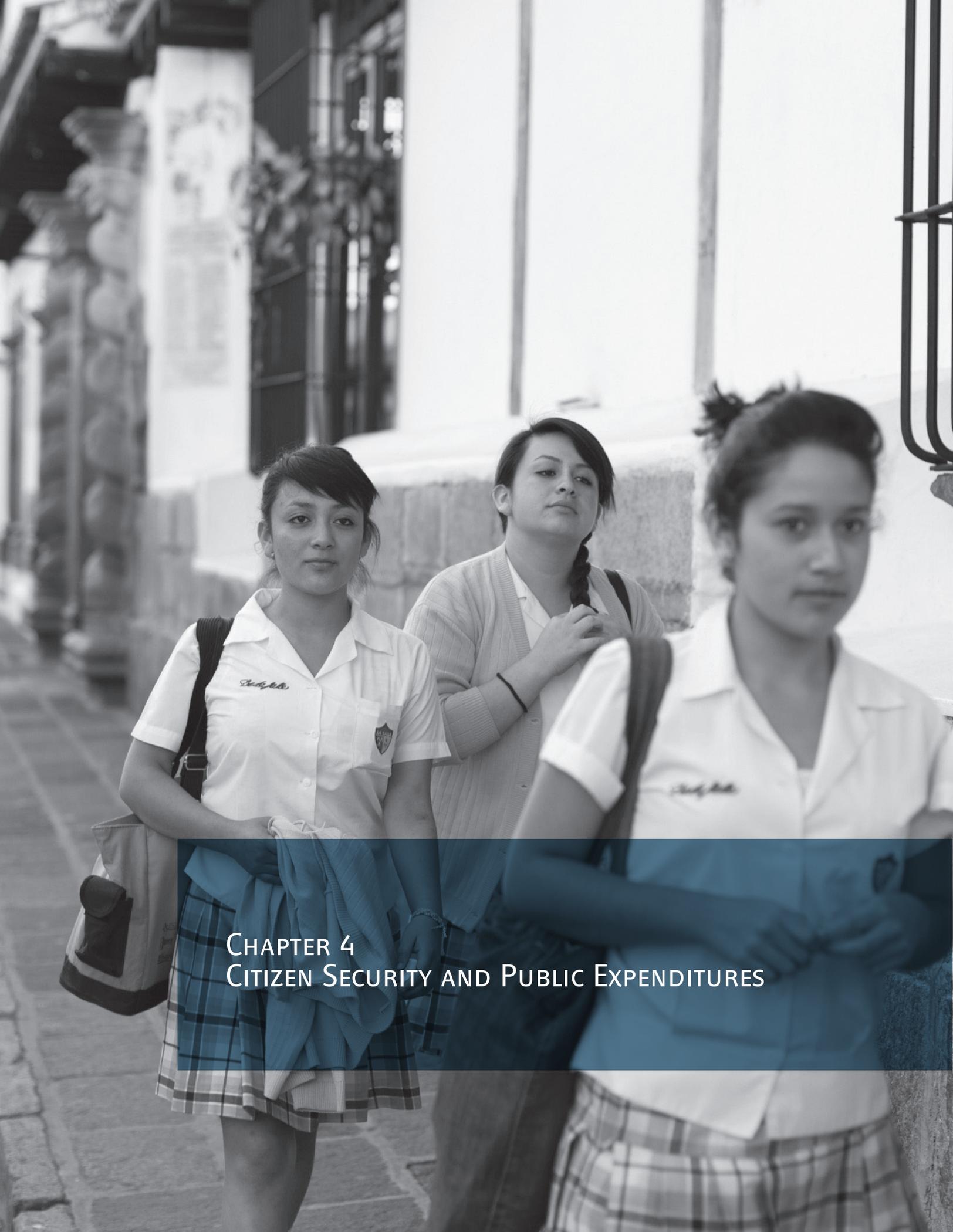
**right direction.** However, some aspects of the law still need to be further developed in order to prepare and carry out PPP projects, such as the institutional arrangements. In addition, the sector would benefit from a capacity building program given the limited experience of PPPs in Guatemala. In this regard, there are important experiences and lessons learned of PPPs in the transport sector in the Latin American Region that could be used to strengthen the sector if Guatemala decides to move forward with the agenda.

**3.46. Likewise, better classification of transport spending into maintenance and investment would help in monitoring the use of resources.** Currently, COVIAL's investments are highly focused on road improvements rather than maintenance. Even though the decree 5-2010 restated COVIAL's responsibilities for maintenance in January 2010, investment for road improvement in 2010 under COVIAL was still high. Maintenance is important to maximize the life cycle of road investments and also extremely important to minimize disaster risks of natural events. A revision of MICIVI's subprograms to better classify the investment and maintenance projects under the correct classifications may help clarify and monitor the resources that are meant to be channeled for new construction (including rehabilitation and improvements) and for maintenance. Also, channeling resources for improvements of the road network under DGC will allow using the procurement processes through the Law on Contracting by the State which increases the transparency of the procurement process.

97. José Barbero (2009).

3.47. **A third element that currently limits the quality of spending in the sector is related to budget and contract management.** DGC and COVIAL need to change their institutional culture and procedures to improve contract management and reduce to the minimum contract over-runs in terms of time and costs. Maintaining original contract designs and terms is important for improving budget management for projects in execution. It would also eliminate the waste of public financial resources related to projects that are not fully executed, which require additional public resources to restart works and complete the projects.

3.48. **In short, these findings indicate that Guatemala can improve both the efficiency and equity of spending.** One way of doing so is to look more in depth at the determinants of performance variations across the Guatemalan territory to promote a more strategic approach towards improving the allocation of resources and strengthening comprehensive geographic targeting and prioritization mechanisms.



CHAPTER 4  
CITIZEN SECURITY AND PUBLIC EXPENDITURES

## » A. Introduction

**4.1. Crime and violence have become, once again, the most important destabilizing factor for political, social, and economic life in Guatemala.** The murder rate in 2010 reached 37 per 100,000 inhabitants, a level seen only during the worst years of Guatemala's brutal civil war, and the seventh highest in the world.<sup>98</sup>

**4.2. Today, however, the manifestations and drivers of the violence are significantly different.** The civil war that killed 200,000 people between 1960 and 1996 took place mostly during a military regime, in rural areas, and was driven primarily by internal stresses related to deep inequality and social exclusion. Today's violence happens under a democratic regime and engulfs both rural and urban areas. Chronic, internal stresses such as persistent inequality and lack of opportunities continue as important drivers of the violence, but newer, external sources of stress - namely the rise of Guatemala as a major trafficking route for drugs - now compound the problem. The Guatemalan state now finds itself overwhelmed in the face of growing urban violence, and increasing activity by organized crime and drug trafficking organizations (DTO), with more and better trained members, highly sophisticated equipment, and exponentially more resources at their disposal.

**4.3. Guatemala's rising crime and violence exact a high cost on development.** Estimates suggest that violence cost the country an estimated US\$2.4 billion, or 7.3 percent of GDP in 2005.<sup>99</sup> This figure represents more than double the damage caused by Hurricane Stan in the same year, and more than double the budget for the Ministries of Agriculture, Health and Education for 2006. A World Bank study estimated that bringing Guatemala's homicide rate down by just 10 percent could boost per capita income by 0.7 percent.<sup>100</sup>

98. UNODC (2011).

99. Acevedo (2008).

100. World Bank (2010a).

**4.4. The costs of crime and violence to the business sector represent a serious drag on growth and development.** The 2011 Global Competitiveness Report ranked Guatemala as the worst performer, out of 142 countries, in terms of the costs that crime imposes on businesses.<sup>101</sup> Earlier data from the Enterprise Survey suggested that the direct costs to the business sector averaged about 3.9 percent of sales in 2006, compared to 3.7 percent for the region.<sup>102</sup>

**4.5. These economic costs pale in comparison to the immeasurable human costs of Guatemala's violence.** In a 2010 report on Central America, the World Bank estimates that the health costs, measured in Disability-Adjusted Life Years (DALYs), are around 1.43 percent of GDP, the second highest in the region after El Salvador<sup>103</sup> The bulk of the costs of violence are incurred by the health sector, including services to victims, lowered productivity, and trauma.<sup>104</sup> In comparison, costs to the legal and security sector were estimated at 1 percent of GDP, while the costs of private security to households and businesses were 1.5 percent of GDP. Material costs and private damages were estimated at 0.8 percent of output.

**4.6. This chapter provides a preliminary assessment of the quality of public expenditures on Guatemala's security sector.** The analysis is necessarily limited by the availability of data. The chapter begins with a brief discussion of trends in crime and violence, followed by key drivers of violence. An analysis of the institutional response to crime and violence is given next, followed by an analysis of expenditures on security and justice, and their relationship with the high impunity rate. The final section offers recommendations for improving the state response to crime and violence.

## B. TRENDS IN CRIME AND VIOLENCE

**4.7. Violence in Guatemala has been rising dramatically in the post-conflict period.** The homicide rate – the most commonly used indicator of levels of violence – nearly doubled during the 2000s, from 24.2 per 100,000 inhabitants in 1999 to 46.3 in 2009. With an annual average of 6,000 homicides per year (equal to the number of homicides in the entire European Union, where the population is 36 times larger) Guatemala now sees more murders annually than during the most brutal years of its armed conflict. In 2010 Guatemala had the seventh highest homicide rate in the world, fifth in Latin America, and third in Central America.<sup>105</sup>

**4.8. However, over the past two years, the homicide rate saw an important decrease, from 46.3 in**

**2009 to 38.6 per 100,000 inhabitants in 2011.** Although it is too early to call this a trend, it is important to note that Guatemala is the only country in the northern triangle that reported a persistent decline in the homicide rate during this period (Figure 4.1).

**4.9. Homicide rates only tell part of the story, however.** While homicide rates appear to have stabilized or possibly decreased in recent years, overall victimization levels are high and on an upward trend in Guatemala. A survey conducted by the Latin American Public Opinion Project (LAPOP) reported that 23.3 percent of the population had been a victim of violent crime in Guatemala in 2010; the second highest rate in Central America, following El Salvador. Previous LAPOP surveys document a rising trend in violence victimization in Guatemala, from 12.8 percent in 2004,

101. World Economic Forum (2011).

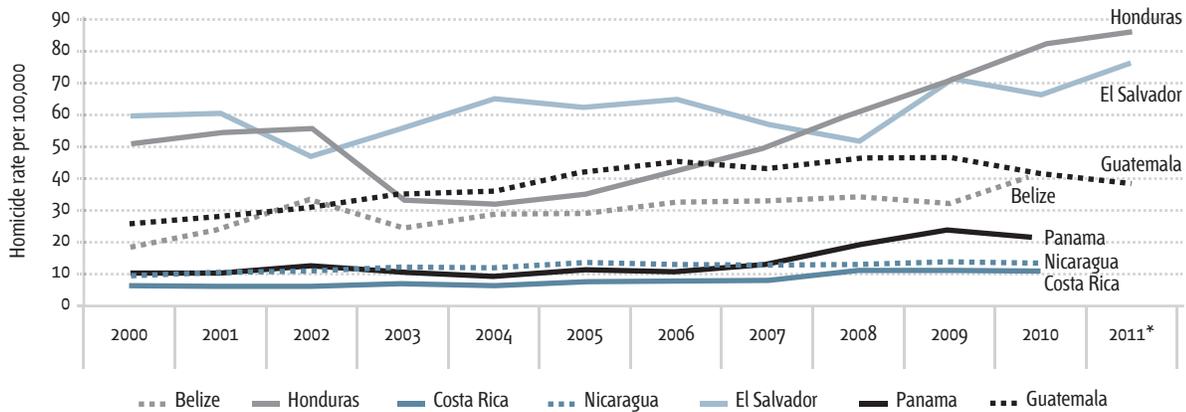
102. World Bank (2010a).

103. World Bank (2010a).

104. Acevedo (2008).

105. UNODC (2011).

FIGURE 4.1: CENTRAL AMERICAN HOMICIDE RATES (2000-2011)



Source: UNODC (2011) for 2000-2010; PNC for 2011.

to 18.9 percent in 2006, 17 percent in 2008 and 23.3 percent in 2010.<sup>106</sup>

### Forms of Violence

4.10. **Violence in Guatemala today is not the product of any easily identifiable group such as gangs or DTOs.** Violence occurs in a range of arenas, from homes to schools to the streets, and is perpetrated by a range of actors: from family members, to small gangs, to private security and vigilante groups and organized crime.

4.11. **Crime and violence can be broadly categorized in two types, based on the main motivations and factors driving them.** *Coexistence-related crimes* are motivated by social conflicts, and include a range of crimes from intra-family violence, violent conflicts between neighbors and in schools, to femicide, lynchings, and social cleansing. *Economically-motivated crimes* are motivated by economic gains. They vary from petty crimes involving individuals (for example assault, cell phone theft and bus robbery) to those involving small groups (such as kidnappings or extortion by gangs) to organized crime (such as

trafficking of drugs), and white collar crime such as money laundering. The boundaries between many of these types of crimes are fluid.

### Coexistence-related crimes

4.12. **The most common coexistence-related crime in Guatemala is intra-family violence.** There is a long history of violence against women and children in Guatemala, which intensified during the civil conflict as both guerrilla and state armed actors targeted women and children for physical and sexual abuse. Available data suggest that this violence continues to be high in the post-conflict period, with some observers identifying it as the most prevalent form of violence.<sup>107</sup> Between 2008-2011, an average of 60,000 cases per year of domestic violence against women were reported, in a population of 13 million.<sup>108</sup>

4.13. **The most extreme form of violence against women (femicide)<sup>109</sup> has reached alarming rates in Guatemala, prompting new legislation to protect women.** According to National Civil Police data, from 2000 to 2010, over 4,000 Guatemalan women and girls were murdered. The country registered 708 femi-

106. Since 2004, LAPOP includes a question that asks the respondents if they have been victims of a crime in the past 12 months. The question was slightly modified in 2010 by adding some examples of crimes such as robbery, assault, extortion or threats. See: <http://www.vanderbilt.edu/lapop/>

107. Adams (2011).

108. Guatemala Human Rights Ombudsman (2011).

109. The term 'femicide' is contested. Some definitions consider all murders of women to be femicide; others narrow the use of the term to the misogynistic murder of women, as a hate crime. The term here refers to the murder of women generally.

cides in 2009 and over 630 in 2010.<sup>110</sup> In 2008 a law to protect women against violence was enacted<sup>111</sup>, yet femicide cases were on the rise, with over 720 femicides reported that year.<sup>112</sup> Because of the low rates of prosecution and investigation of femicide in Guatemala, it is difficult to know what is driving these crimes. Hypotheses include: male partners feeling threatened by women taking on new roles both during and after the conflict; turf wars between rival male gang members;<sup>113</sup> a strategy by DTOs to distract attention from other illicit activities, or to destabilize the government; and attempts to warn women who transgress traditional social norms.<sup>114</sup>

**4.14. Lynching appears to be rising in Guatemala.** According to a 2011 report from the Ombudsman's Office,<sup>115</sup> these crimes have been on the rise since 2004, going from 25 attempted lynchings in that year (4 deaths) to 147 attempted lynchings in 2011 (47 deaths). There appears to have been a particularly large jump between 2008 (18 deaths) to 2009 (43 deaths). According to police records, in 2011 there were 49 deaths by lynching in Guatemala. These occurred in 10 departments out of a total of 22, and in 32 municipalities out of a total of 333.<sup>116</sup> The causes of the lynchings are complex, but seem to be motivated by frustration at the perceived inability of the state to control crime and violence since they tend to concentrate around the border with Mexico where the state is mostly absent.

**4.15. Social cleansing (*limpieza social*) also appears to be an important problem, and allegedly linked to the rise - or in some cases, the resurgence - of extra-legal security groups.**<sup>117</sup> Some of these groups are directed by ex-military officers and politicians - a response to ineffective security forces and a sense that the security forces cannot protect people. One analysis estimates that extrajudicial executions increased by 60-70 percent from 2001-2005, with annual deaths

in the hundreds in recent years.<sup>118</sup> Many of the victims of such crimes are youth, which some observers attribute to a frustration with the limited capacity of the juvenile justice system to deal effectively with criminal activity by youth.

### *Economically motivated crimes*

**4.16. Much of Guatemala's violence is driven by economic incentives, and is perpetrated by a variety of different groups.** That is to say, the problem of violence cannot be attributed to one group in particular, and likewise, all sectors of society seem to be affected by violence.

**4.17. Petty theft in Guatemala is common, and often involves violence.** Of the individuals surveyed by LAPOP in 2010, 12.5 percent reported being a victim of armed robbery in the previous year, the highest rate in Central America. This represents a slight increase from 2008, when it was 11.5 percent.<sup>119</sup>

**4.18. Kidnapping appears to be a significant problem, and is likely under-reported.** According to National Civil Police data, there were 163 reported kidnappings in 2009, about half of which occurred in urban areas. Figures are only available for 2007 (96) and 2008 (213) making it difficult to identify trends. Victims range from business owners, politicians, public servants and their families, to common citizens of all socioeconomic classes.<sup>120</sup> "Express" kidnappings are the most common form, in which the victim is obligated to visit ATMs and extract cash before being released. These crimes are likely under-reported because of difficulties in defining kidnapping, such that these crimes are often classified as robbery or assault. In addition, reporting of kidnapping tends to decrease as incidence of kidnapping increases, as people become more fearful or cease to rely on police to find victims, negotiate ransom, etc.<sup>121</sup>

110. Guatemala Human Rights Commission (2011).

111. Law 49-82 and 69-94.

112. Guatemala Human Rights Ombudsman (2011).

113. Musalo (2010).

114. Sanford (2008).

115. Human Rights Ombudsman (2011).

116. Mendoza (2012).

117. While both social cleansing and lynching are illegal extrajudicial executions, the former is a private, clandestine act while the latter is a public act that involves the community to produce some type of exemplary punishment.

118. Agner (2008) and Replogle (2005).

119. LAPOP (2008).

120. Ministerio de Gobernación (2009).

121. UNODC (2007).

4.19. **Extortion is a frequent problem, especially for transport sector workers.** These workers are vulnerable to regional organized crime groups, who extort periodic payments from them according to how many passengers they transport, the number of kilometers they travel and other variables. Resistance by transport workers, or their failure to comply with some of the demands, often results in homicide. In addition to these dynamics, there are also violent disputes between rival groups about who has access to certain buses or routes.<sup>122</sup>

4.20. **Rates of car theft are high in Guatemala, and most car theft involves violence.** According to the Prosecutor's Office, the most common forms of car theft are dismantling (50 percent), resale of the vehicle after changing the documentation or identification of the vehicle (30 percent) or theft of items left inside the car (20 percent). Violence is used in an estimated 90 percent of these crimes. An estimated 25 groups specializing in car theft operate in Guatemala, with between 4-6 members each. They operate with a certain degree of impunity given the difficulties in apprehending them and the fact that thieves can arrive at and cross the national borders quickly, putting them beyond the jurisdiction of the police.<sup>123</sup>

4.21. **Violence and crime are also connected to youth gang activity, though the evidence on the extent of this activity is thin and contradictory.** Independent sources estimate there are 14,000 gang members in Guatemala, and 434 distinct youth gangs.<sup>124</sup> A 2006 report by USAID estimated that the majority of these small gangs, called *clikas*, are loose affiliates of the larger, transnational gangs Mara Salvatrucha (MS-13) and Calle 18. The extent to which these *clikas* collaborate or are under the authority of the larger gangs is unclear.<sup>125</sup> While gangs are often blamed for rising violence, there has been little empirical analysis of gang activity in Guatemala, and the available data casts doubt on the perception of gangs as the main instigators of violence.<sup>126</sup> At the same time, it is likely that many violent activities by youth gangs go unre-

ported; thus their involvement in violence should not be disregarded.

4.22. **The extent to which youth gangs are linked to larger DTOs is unclear.** Some analysts suggest youth gangs are involved in extortion and kidnapping, and that some individual members may have begun hiring themselves to Mexican DTOs as hitmen.<sup>127</sup> Others have argued that the latter activities are mostly carried out by organized crime, involving older and more experienced members than the youth gangs.<sup>128</sup>

### C. DRIVERS

4.23. **Today's violence in Guatemala is a result of the confluence of several factors, primarily weak state institutions and the rise of Guatemala as a main trafficking route for drugs.** With the signing of the Peace Accords, just as Guatemala's authoritarian institutions were moving toward democratization, control of the drug trade was shifting from South America to Mexico, with Guatemala as a key transit country. Guatemala's nascent democratic institutions have been vulnerable to the rising drug trade, which makes profits dwarfing the GDPs of the region. Widespread availability of firearms left over from the war has contributed to this, and persistent inequalities and social exclusion have resulted in a large pool of potential recruits for gangs and DTOs, creating a perfect storm for an escalation of violence in the post-conflict period.

4.24. **In Guatemala, as throughout Central America, the increase in drug trafficking is probably the single most important driver of violence.** The percentage of cocaine destined for the United States crossing through Guatemala has doubled between 2006 and 2010, from 9 to 17 percent.<sup>129</sup> With this rise in drug traffic has come a dramatic increase in homicides along trafficking routes. Just seven percent of the municipalities (25 out of 333), mostly located along drug routes, concentrated 60 percent of all homicides in 2009.

122. International Crisis Group (2010).

123. Central American and Caribbean Commission of Police Chiefs. Cited in World Bank (2010a).

124. Congressional Research Service (CRS) (2009).

125. Ranum (2006).

126. World Bank (2010b).

127. Guatemalan Human Rights Commission Gang Fact Sheet <http://www.ghrcusa.org/Publications/GangFactSheet.pdf>

128. Dudley (2010).

129. International Crisis Group (2011).

4.25. **Weak state institutions have been overwhelmed by crime and violence, and when captured by criminal organizations have become part of the problem.** With the lowest tax base in the Latin American region, the Guatemalan state is under-resourced to confront the problem of rising violence and crime. The police remain under-funded and poorly equipped. The legal system – with a dearth of adequately trained investigators, prosecutors and forensic examiners, and lacking modern equipment – is similarly overwhelmed. There is evidence of infiltration of some criminal elements into state institutions charged with maintaining law and order, further undermining institutional capacity to deal with crime and violence. Former Guatemalan Police Chief Erwin Perisen estimated that, in 2007, a full 40 percent of the PNC had been involved in corruption.<sup>130</sup> Organized crime groups routinely receive early warnings of planned raids by police forces, and recently, security officials were alleged to have helped drug traffickers steal weapons from military armories. The extent of the infiltration of these elements into state institutions contributes to a culture of corruption throughout the Guatemalan state system. Public officials are increasingly reluctant to report abuses in their agencies for fear of retribution.

4.26. **The weak institutional capacity of the Guatemalan state to stem the growing violence contributes to a crisis of confidence in the state, and in democracy generally.** Chronic violence and a growing culture of corruption fuel fear, distrust and cynicism in Guatemalan society. In a 2006 survey, 86 percent of Guatemalans reported feeling that the level of insecurity in the country poses a serious threat to the future well-being of the country.<sup>131</sup> This sense of insecurity contributes to a tendency toward more authoritarian governance systems. A Latinobarometro survey reported that only 8 percent of Guatemalans felt democracy works better in their country than in the rest of the region, the lowest figure among all Latin American countries. Equally troubling is a tendency for Guatemalans to look to non-state ac-

tors to the problem of insecurity, through increasing employment of private security and vigilante justice. Depending on the estimate, the size of private security personnel is four to six times larger than that of the police.<sup>133</sup> These security firms are often better-equipped than the police, and subject to limited, if any, formal regulation.<sup>134</sup>

4.27. **The widespread availability of firearms compounds the problem.** Guatemala has the highest estimated rate of gun ownership in Central America. There are approximately 16 guns per 100 people in Guatemala, compared to 2.8 in Costa Rica and more than double the rates of Panama (5.4), Honduras (6.2), El Salvador (7) and Nicaragua (7).<sup>135</sup> A 2008 study of firearms in Guatemala found that firearms were overwhelmingly present in reported incidents of violent crime. In the same survey, 31 percent of participants said they already owned some kind of firearm, while a third of them said they had handguns specifically. The proliferation of firearms in Guatemala is both a legacy of its armed conflict and a reflection of the growing presence of the drug trade in the region. The lucrative drug trade helps finance the purchase of firearms, which then contribute to more violent crime. This problem is aggravated by the flow of arms from the Southern United States through Central America, especially Honduras and El Salvador.

4.28. **An inequitable pattern of socio-economic development has created an increasingly disaffected segment of the civilian population, vulnerable to criminalization.** The lack of access to economic and educational opportunities – especially for poor families – is a key factor underlying Guatemala's crime and violence problem. In 2006, 44 percent of youth aged 14-17 in the bottom quintile (the poorest 20 percent of households) are both out of school and economically inactive. Even in urban areas, where education access is better, 15 percent of the population is both out of school and economically inactive. With few available alternatives, youth are more easily lured into activities with organized crime or urban gangs.

130. Bureau of International Narcotics and Law Enforcement Affairs (2009).

131. USAID (2006).

132. Latinobarómetro (2008).

133. A 2010 UN report documented at least 107,000 private security agents while another report from ICG estimated around 150,000 in 2007. The PNC has 25,000 policemen.

134. Ortiz (2009), Porras Castejón (2008).

135. Karp (2008), Arias Foundation (2005), cited in World Bank (2010a)

## D. THE INSTITUTIONAL RESPONSE

4.29. **While Guatemala has made progress in its institutional environment, creating institutions and passing legislation, the implementation track record has been very poor.** Progress has been hindered by a number of factors, especially the lack of a reliable system to collect and manage information about violence, and the lack of coordination across the different institutions and sectors that share responsibility for violence control and prevention. These are also complicated by high turnover in key institutions, especially within the Minister of the Interior and the National Civil Police (PNC).

4.30. **The disconnect between the ambitious aspirations of national policy and the reality of conditions throughout Guatemala is striking, and reflects the scale of the task the government faces in providing meaningful security to its citizens.** For example, of the ten national policies relating to violence prevention identified by the Secretariat for Planning and Programming (SEGEPLAN), only three have defined budgets.<sup>136</sup> There is little buy-in from the private sector at the national level, and perhaps even less from local-level stakeholders.

4.31. **The most significant challenge to implementing policy on violence control and prevention is arguably the lack of a coordinated system of information collection and analysis.** In Guatemala, information on crime and violence is highly unreliable even for most basic indicators, such as homicide. Data on crimes is not disaggregated by sex or age, or by other key indicators such as ethnicity, type of crime, or location of the crime. Different institutions employ different indicators, formats and recording systems. Civil society organizations have led important efforts to construct indicators and monitor trends, but these have been isolated and uncoordinated. Under these conditions it is impossible to construct a solid evidence base on which to build effective policy.

4.32. **Overall, the institutional response has been complicated by the lack of coordination mechanisms across institutions which share responsibilities in**

**violence control and prevention.** The security sector is led by the Ministry of Interior (*Ministerio de Gobernación*) which has to coordinate with a wide range of ministries and agencies that perform critical functions for the provision of security. This includes several ministries involved in crime prevention, the police and penitentiary system (which are part of the Ministry of Interior), and the Guatemalan justice system which includes the Judicial Branch (*Organismo Judicial*), the Office of the Attorney General (*Ministerio Público*), and the Public Defender's Office. Personnel policies, strategic planning, and data collection and analysis are conducted by the different institutions in isolation, resulting in much inefficiency.

4.33. **Several ambitious initiatives have fallen short of their stated goals.** The 1997 Accord to Strengthen Civilian Power and the Role of the Military in a Democratic Society was signed as part of the Peace Accords. In its wake, the government established a Commission to Strengthen Justice in order to support the reforms envisioned in the Peace Accords. By 2007, important inroads had been made in addressing the needs of a multicultural, in many cases illiterate population (through the introduction of oral arguments and translators); transitioning from an inquisitorial to an adversarial system; the creation of an Attorney General; a school for judges; and the establishment of a democratic procedure to name high-ranking judges and magistrates, among others. However, in spite of this progress, many positive reforms were found to be short-term and dependent on international support. A system that privileged the powerful and repressed the weak was still in place, and judicial officials struggled with threats to their lives, as well as co-optation by powerful forces.<sup>137</sup>

4.34. **Similarly, the 2009 National Agreement for the Advancement of Security and Justice promised to increase accountability of institutions.** This law holds the State and its institutions responsible for “guaranteeing security and the administration of justice for the well-being of the population, obligating that they protect the individual and family...”.<sup>138</sup> However, a 2010 appraisal showed that its implementation had produced scarce results. According to the Grupo

136. Partners for Democratic Change (2012).

137. Calvaruso et al (2008)

138. Op cit, 25.

Garante (G-4), a multi-sectoral group in charge of monitoring the 2009 agreement, of the 101 commitments contained in the Agreement only 12 were fulfilled after nine months, 45 showed some progress and 44 no activity. The causes of this failure are rooted in the context of a weak state and the absence of political will or political leadership to ensure its full implementation.

**4.35. Guatemala approved a law on gun control in 2009, but has faced challenges in enforcing it due to limited resources.** Only an estimated one quarter of the estimated one million guns in circulation are formally registered. People cite various reasons for not registering their guns, from concerns about confiscation, to the fear that, if they do use the gun (even in self-defense) they could face prosecution.

**4.36. The disconnect between policy ambitions and their implementation is also apparent at the local level.** To begin with, the role of local governments in citizen security is not well established in the legislative framework. While security is clearly a national level mandate, the Constitution (article 259) authorizes municipalities to create municipal police and justice systems (*juzgados municipales*) under the authority of the mayor. There is space in the Municipal Code for taking on additional responsibilities at the municipal level, which could potentially include an expanded role in citizen security.

**4.37. At the municipal level, the Municipal Boards for the Protection of Children and Adolescents (MBP) are charged with some violence prevention responsibilities, but these are poorly funded and are not formally linked to the justice system.** Established in 1997, the MBPs were designed to protect children and adolescents from violence, and as such constitute an important mechanism for community outreach and programming. Currently 160 MBPs are organized throughout the country, covering approximately half of all municipalities. These bodies are coordinated by departmental or municipal assistant of the Office of Human Rights and thus lack formal jurisdiction within the justice system. Though their role as a liaison with communities is recognized, they are severely under-resourced.

**4.38. Investment in rehabilitation and reintegration of criminal offenders has also been lacking, especially for youth.** The Guatemalan government has experimented with a variety of innovative prevention strategies, especially for youth, but these have been mostly financed by donors and have not been scaled up.<sup>139</sup> The DIGEX program, financed by the Education Ministry, which offers vocational training to at-risk youth, is often cited as one successful example. Similarly, in terms of juvenile rehabilitation services, Guatemala has only four juvenile detention centers, all of which are located in the department of Guatemala. An independent assessment found all the centers failed to meet the mandated standards related to reintegration and support services and to assure full realization of the rights of youth, especially minors, in detention<sup>140</sup>

**4.39. On the bright side, one of the most promising initiatives, the International Commission against Impunity in Guatemala (Comisión Internacional Contra la Impunidad en Guatemala, CICIG) has made important gains, but formidable challenges remain.** The CICIG was created in December 2006 at the request of the Guatemalan Government and began functioning in January 2008. The establishment of the CICIG was the result of the strong political will of the Government, private sector and civil society. Funding is provided by various donors, including private funds for the Commission's two-year mandate, an extension of which will be endorsed by incoming President Perez Molina. CICIG works with the Public Ministry and other justice-sector institutions to "investigate and dismantle violent criminal organizations believed responsible for the widespread crime and the paralysis in the country's justice system." With donor support, the CICIG has been trying to develop and fortify cells of highly trained, vetted prosecutors and police that can eventually lead reform from within their respective institutions.

**4.40. CICIG made important progress in pursuing some high profile cases.** In less than a year and a half, partly as a result of CICIG's work with state agencies, 1,700 people have been expelled from the police force, including 50 senior officials and the deputy director of national policy; 10 prosecutors had been

139. See Cooper and Ward (2008) for a review, and IADB (2008).

140. Partners for Democratic Change (2012).

asked to leave and the Attorney General has been replaced. However, the fight against impunity in Guatemala remains a daunting task, exemplified by the low homicide conviction rate.

## E. FINANCING OF SECURITY AND JUSTICE

4.41. **This section analyzes the main trends and sources of funding for security and justice**, the balance and composition of these expenditures across the core pillars of the sector, and the degree of predictability and flexibility of expenditures.

### Trends and sources of funding

4.42. **Between 2006 and 2010, the budget for security increased by fifty percent and the budget for justice by thirty percent in nominal terms.** As of 2010, the Guatemalan government allocated Q.7.5 billion, or 15 percent of the total budget. As a share of GDP and of the overall budget, however, the allocation for security and justice has remained relatively flat: in 2010, it represented 2.3 percent in terms of GDP, the same share as in 2006.

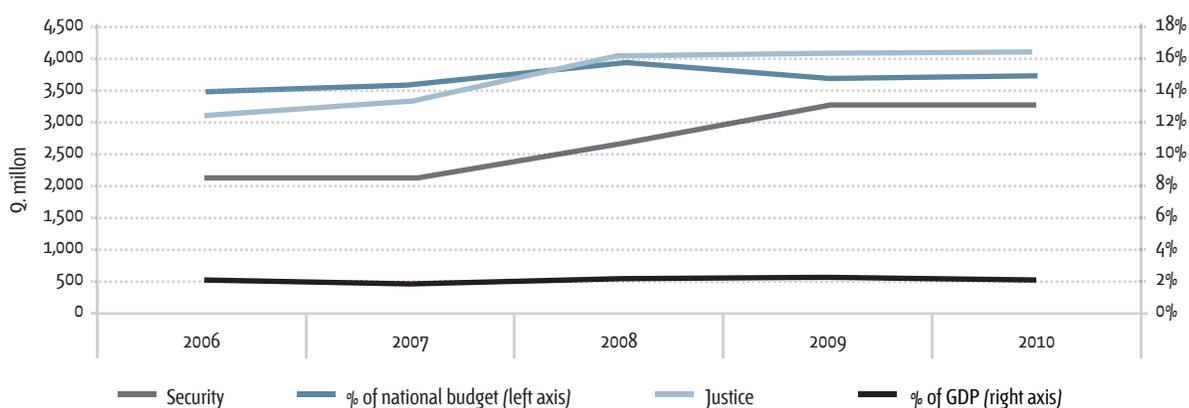
4.43. **Compared to its Central American neighbors, Guatemala's security and justice expenditure is the second highest in terms of overall budget share, but**

**the lowest in terms of GDP.** As Figure 4.3 shows, El Salvador leads both categories. It spent more than 20 percent of its budget on security compared to Guatemala, Nicaragua and Honduras that spent between 10 and 15 percent. El Salvador spent about 3.5 percent of its GDP compared to 2.3 percent in Guatemala and 2.8 in Honduras<sup>141</sup>

4.44. **Public expenditure on security and justice is concentrated in three main institutions:** the Ministry of Interior in the case of security, and the Judicial Agency and entities not affiliated with specific ministries (such as the Constitutional Court, Human Rights Office and others)<sup>142</sup> in the case of justice. Between 2006 and 2010, there were no significant changes in the distribution of resources among executing branches; during these years the Ministry of Interior and the Judicial Agency and other entities controlled more than 80 percent of security and justice expenditures. Allocations to key security institutions such as the National Civil Police and the Judicial Agency remained around 4.4 percent and 4.2 percent of the total budget, respectively, between 2008 and 2010 (see Annex 4).

4.45. **At the municipal level, security and justice expenditure account for 8-9 percent of municipal budgets.**<sup>143</sup> The bulk of this spending (7.8 percent)

FIGURE 4.2: NATIONAL GOVERNMENT EXPENDITURE ON SECURITY AND JUSTICE (2006-2010)



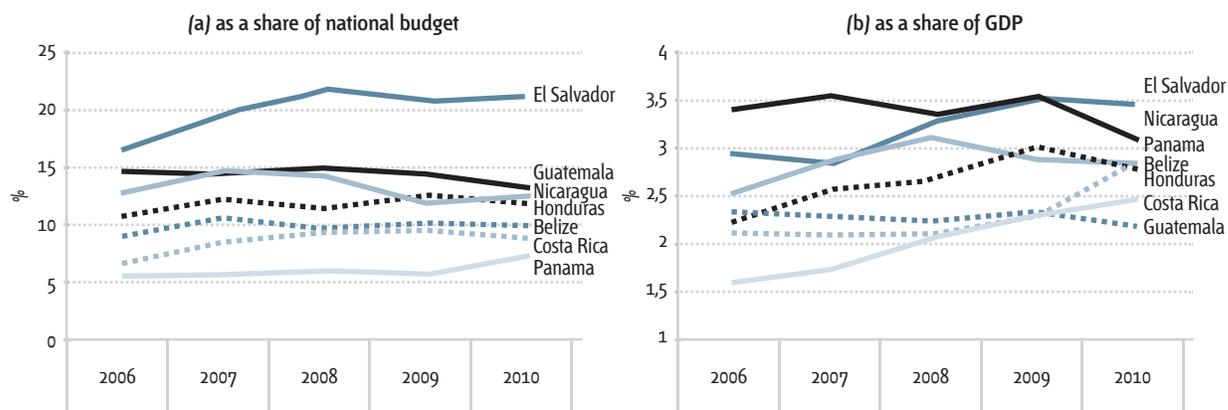
Source: BOOST database using SICOIN data; UNDP (2011).

141. There is a slight discrepancy between UNDP's and our own calculations of the share of national budget that corresponds to security. This is probably due to the inclusion of some different programs in either process. As a share of GDP, however, the numbers coincide.

142. Allocated through the budget line "obligations of the state in charge of the treasury".

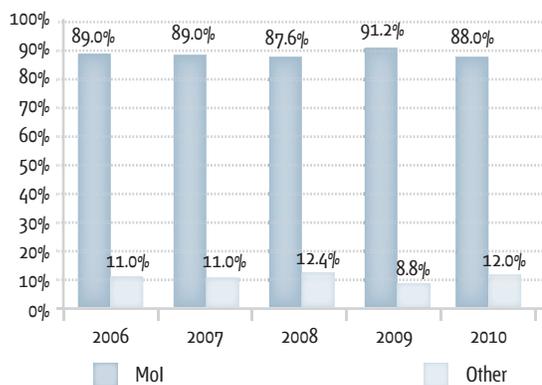
143. Budget data for the security function at the municipal level is only available for 2008-2009, while budget data for the justice function at the municipal level is only available for 2010-2011.

FIGURE 4.3: SECURITY BUDGET IN CENTRAL AMERICAN COUNTRIES(2006-2010)



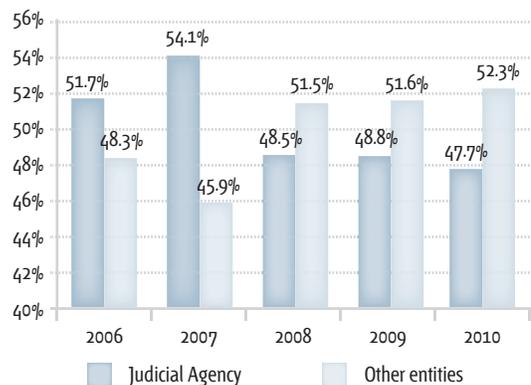
Source: UNDP (2011).

FIGURE 4.4: NATIONAL GOVERNMENT EXPENDITURE ON SECURITY, BY INSTITUTION (2006-2010)\*



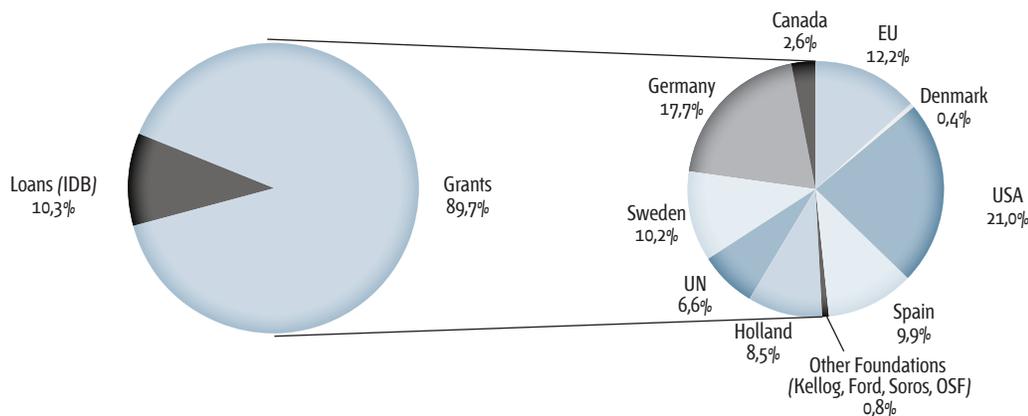
\*Allocated budget. Source: BOOST database, UNDP (2011), authors' calculations.

FIGURE 4.5: NATIONAL GOVERNMENT EXPENDITURE ON JUSTICE, BY INSTITUTION (2006-2010)\*



\*Allocated budget. Source: BOOST database, UNDP (2011), authors' calculations.

FIGURE 4.6: EXTERNAL FUNDING FOR CITIZEN SECURITY (2005- 2011)



Source: Authors' calculations based on IDB and WOLA (2011).

is allocated to the justice sector, with most of it financed through central government transfers (70 percent). Security spending, on the other hand, is primarily financed with municipal own source revenue. Municipal security spending is concentrated in the department of Guatemala, the only subnational entity with its own Municipal Police force, which accounts for over 70 percent of the total; expenditures on justice, on the other hand, are more evenly distributed.

**4.46. International development cooperation finances an average of US\$43.5 million per year, which represents about one-third (28.7 percent) of the average annual national budget for security, excluding wages and salaries, or 6.9 percent including salaries and wages.** Guatemala is the country in Central America with the highest share of funding from international development cooperation for citizen security.<sup>144</sup> The country received US\$304.2 million from 2005 to 2011, which is about one third of the total for the region, mainly oriented to institutional strengthening and prevention. Ninety percent were grants and the rest loans. Funding comes mainly from the United States government (21 percent), German government (17.7 percent), European Union (12.2 percent) and IDB (10.4 percent). In total there were 90 projects identified, with an average size of US\$3.4 million. Ninety-six percent of these projects are in implementation and the rest are being designed.

### *Composition and balance of expenditures*

**4.47. For the security system to function properly, there needs to be a balance across the different pillars of the system (prevention, control, justice, and rehabilitation).** A solid preventative system will not be effective if it is not accompanied by an efficient system for control and repression of violence. At the same time, a developed public security sector will fall short of its objectives if the Prosecutor's Office is not able to prosecute cases effectively. A strong Prosecutor's Office cannot be a prudent steward of resources if the courts are not able to take the cases forward effectively. In turn, the sentences given by the courts will be of little use if the penitentiary system is defi-

cient, for example if jails are unable to accommodate new inmates, or worse, if jails are not able perform their function of rehabilitating inmates. If the jails are only 'universities for crime' and recruiting centers for organized crime, the recidivism rates will be high and systems for prevention and control of crime will be overwhelmed. For this reason, each pillar is connected with the pillars that precede and follow it.

**4.48. A broad definition of the type of programs that contribute to crime and violence prevention suggests that at least twenty percent of the security budget is dedicated to this purpose in Guatemala.**<sup>145</sup>

However, a closer look at the content of some of these programs raises questions about their real impact in terms of preventing violence. For instance, more than three quarters of that 20 percent comes from three programs which do not have violence prevention as an explicit objective and may affect it only indirectly: (i) FONAPAZ, which invests in poverty reduction projects in areas that were affected by conflict but where currently there are very low rates of crime and violence; (ii) the Human Rights Prosecutor, which is responsible for investigating crimes committed by government officials which abuse their authority; and (iii) follow up to the Peace Agreements, which include a large number of institutional commitments in a number of different areas (not only prevention). This suggests the need for a follow up study on the nature of each program and ways in which they may contribute to the prevention of violence.

**4.49. The budget for is fragmented across multiple ministries with a weak coordinating role of the Ministry of Interior (MOI).** Most of the budget for prevention is executed by more than five other ministries including the Ministries of the Presidency, Education, Health, and FONAPAZ. While the presence of prevention programs across sectors is positive since it speaks to the mainstreaming of the issue, the Ministry of the Interior only allocates 1.37 percent of its security budget for prevention activities. Budget fragmentation in absence of effective coordination mechanism and lack of policy directives results in the impossibility of integral policy on security. The incapacity to be able to coordinate the programs for primary, second-

144. This data is based on own analysis of data generated through a mapping exercise done by IDB and WOLA (2011).

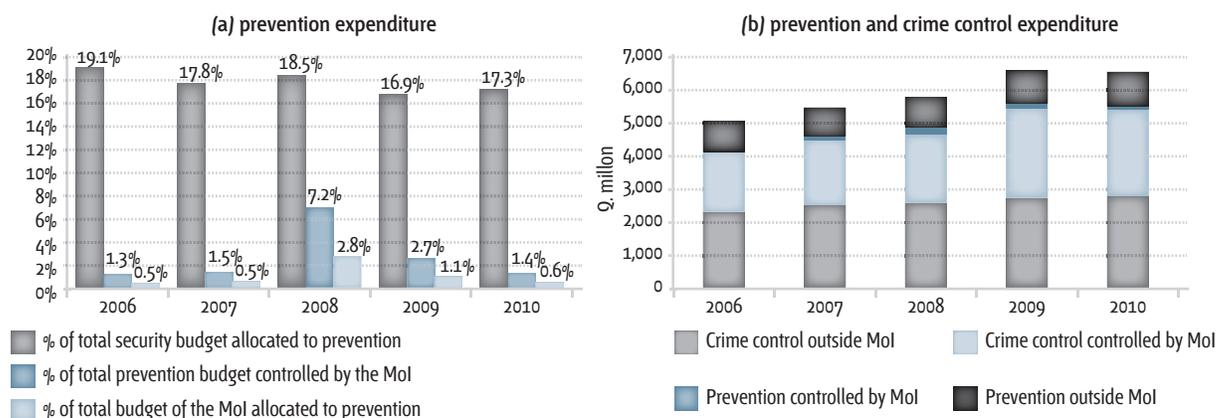
145. UNDP (2011).

ary and tertiary prevention that fall within its purview is impeding its broader role of defining public security policy in Guatemala. The MOI does not have a presence, participation, or in some cases even knowledge of the prevention-oriented activities of other government agencies. The Ministry, however, as the main policymaking body on prevention, should oversee the coordination of these programs and ensure a degree of coherence and consistency between them.

**4.50. Similarly, the MOI manages only half of the budget for crime control, and lacks budgetary instruments to coordinate with the other spending**

**ministries.** Even though the MOI has the mandate for citizen security, and is responsible for the National Civil Police, other ministries such as the Ministry of Defense, the Presidency of the Republic, and others control about half of the budget. In addition, the lack of budgetary instruments for coordination makes it very difficult to plan, implement and evaluate security policies. Good practices in inter-agency coordination suggest that the resources available for the execution of certain public policies should be managed by the agency responsible for the design and coordination of those policies.<sup>146</sup> In addition, the impacts of the activities carried out by other agencies

FIGURE 4.7: SPENDING ON PREVENTION AND CRIME CONTROL (2006-2010)



Source: Authors' calculations based on data from UNDP (2011).

TABLE 4.1: BUDGET ALLOCATED TO SECURITY AND JUSTICE FUNCTIONS (Q. MILLION, 2011)

	Fixed Costs	Operational Costs	Total	% Fixed Costs	% Operational Costs
Ministry of Interior	300	96	396	75.7%	24.3%
National Police	1,994	458	2,453	81.3%	18.7%
General Direction	1,909	312	2,221	85.9%	14.1%
General Sub Direction of Studies	63	84	147	43.0%	57.0%
General Sub Direction of Police Health	13	6	18	69.0%	31.0%
Transit Department	9	56	66	14.4%	85.6%
Other institutions	237	379	616	38.5%	61.5%

Source: BOOST database.

146. The Ministry does not oversee budget reporting and evaluation of the use of resources assigned to these activities managed by other Ministries. Since the coordinator agency should be in the chain of management and budgeting. When this is not the case, the result is that implementing agencies maintain their own priorities and follow their own bureaucratic culture, with the consequence that their activities are not necessarily in line with those of the Ministry.

that are not coordinated with the Ministry are not measured and cannot be attributed to any program in particular.

4.51. **Resources allocated by the international development cooperation show also some imbalances.** They are primarily destined to strengthening the managerial capacities within the security and justice sectors (57.4 percent), as well as crime control (24 percent) and prevention programs (18.6 percent). Again the glaring absence is rehabilitation and reinsertion.

#### *Flexibility and predictability of the budget*

4.52. **There is an inadequate balance between fixed and operating costs.** Because many recurrent costs are inelastic, the distribution of resources for programs and operations is crucial. In Guatemala, the process of resource allocation does not allow for the effective functioning of the security policy. As shown in the graph, the MOI spends less than 1 of every 4 dollars of its budget on operations (non-wage current expenditure). This ratio of 1 (operation) to 3 (fixed costs) differs substantially from best practice guidelines, which recommend a ratio of 2 to 1 for an efficient public security system. The situation for government agencies that implement security programs (including the Ministry of Justice and the Prosecutors Office) and those agencies that do not fall under the MOI have a somewhat better ratio (but still far from the ideal) of 3 to 2. More worrisome is the situation in the National Civil Police, where, on average, the ratio is 1 to 4. A police force cannot operate with only 19 percent allocated for this purpose.

4.53. **Budget under-runs, transfers, and modifications frequently affect the resource availability for public security in Guatemala.** These variations affect significant and relevant parts of the budget, as well as the normal and logical performance of project planning and implementation. The national budget in security decreases on average 14 percent between allocation and execution. This reduction is mainly explained by a decrease in the budget of the MOI (Table 4.2) that has to transfer resources to other ministries and governmental programs. Between 2004 and 2010, the MOI lost between 13 and 21 percent of the budget that was initially allocated.

4.54. **Transfers from the MOI to other ministries happen across all budget lines and may contribute to perverse behavior by public servants.** As Table 4.2 shows, all budget items are affected. Adding both modifications and under-execution, the Ministry loses 17.3 percent of its budget. It is hard to imagine how the Ministry can function when it loses a share which is comparable to its budget for operational costs, which may be a structural incentive that leads regular street workers (like policemen) to petty corruption.

#### *F. ASSESSING THE OUTCOMES*

4.55. **The lack of resources to establish a comprehensive and coordinated policy for primary, secondary and tertiary preventive programs is affecting the government's capability to deter crime and reduce violence.** Elsewhere, effective primary preventive programs have demonstrated important reductions of *motivation* for crime and violence; effective secondary prevention and policing programs have been successfully reducing *opportunities* for crime and violence; and well established tertiary prevention programs have been effective in reducing *recidivism*. Such programs are neither properly funded nor articulated under Guatemala's security policy, and, as a consequence, underperform. The lack and poor quality of data on crime and violence makes it almost impossible to establish proper preventive policies, strategies, programs and actions to address and evaluate them. High *impunity* rates complete the combination of factors that prevents the Guatemalan state from sustainably lowering crime and violence rates.

#### *Analyzing the impunity rate*

4.56. **The "impunity rate" measures the percentage of crimes that do not have an adequate institutional response (whether through the police and justice system or alternative conflict resolution mechanisms).** As such it provides a summative assessment of the performance of a security and justice system. It has implications both in terms of preventing future crime through deterrence, as well as bringing justice to the victims of crimes, and maintaining an enabling environment for the rule of law. In terms of deterrence, one of the findings of the American empirical criminology literature is that the most important factor to deter

**TABLE 4.2: MODIFICATIONS AND EXECUTION OF SECURITY BUDGET**  
(Q. MILLION, 2010)

Descripción	Approved Budget	Actual Budget	Modifications		Execution	
			Modified	%	Executed	%
<b>Ministry of Interior</b>	<b>3,275</b>	<b>2,708</b>	<b>-567</b>	<b>-17.3%</b>	<b>2,629</b>	<b>97.1%</b>
National Police	2,170	1,902	-268	-12.4%	1,873	98.5%
Planning	139	130	-8	-5.9%	125	96.1%
Civil Intelligence Service	85	72	-13	-14.8%	58	80.7%
Anti-Narcotics Research	10	8	-2	-16.0%	8	95.2%
National Police Academy	200	73	-127	-63.4%	67	91.7%
National Police Hospital	23	17	-6	-26.7%	16	95.8%
Criminal Investigation	6	0	-6	-100.0%	0	
Crime Prevention	6	0	-6	-100.0%	0	
Migratory Control	193	111	-82	-42.5%	103	92.9%
Community-based Prevention of Violence	16	24	8	52.9%	20	84.0%
Prison System	249.2	245.7	-4	-1.4%	244.8	99.6%
Transit Department	54.9	11.7	-43	-78.7%	9.1	77.8%
Departmental Governments	61.6	64.6	3	4.9%	60.4	93.5%
Register of Persons	9.5	0	-10	-100.0%	0	
Official Gazette	53.5	49.4	-4	-7.7%	44.7	90.5%

Source: SICOIN.

crimes is not the severity of the punishment but the certainty of it, more precisely the perception that offenders have about the likelihood of being punished if they break the law.<sup>147</sup> One way to assess the deterrent capacity of a system is to assess the level of impunity that exists. The higher the level of impunity, the lower the capacity to deter crimes. High impunity rates do not allow victims to have closure, incites vigilantism, and lowers trust in the state.

**4.57. For every one hundred crimes that are committed in Guatemala, only 1.2 end up in a trial and only 1 in a conviction.** Some cases do not go to trial for good reasons - i.e., the offense was minor, or was settled through alternative conflict resolution mechanisms. However, the large majority is due to the inef-

fectiveness of the state which manifests itself either in the low reporting of crimes or the incapacity to investigate and process criminal cases.

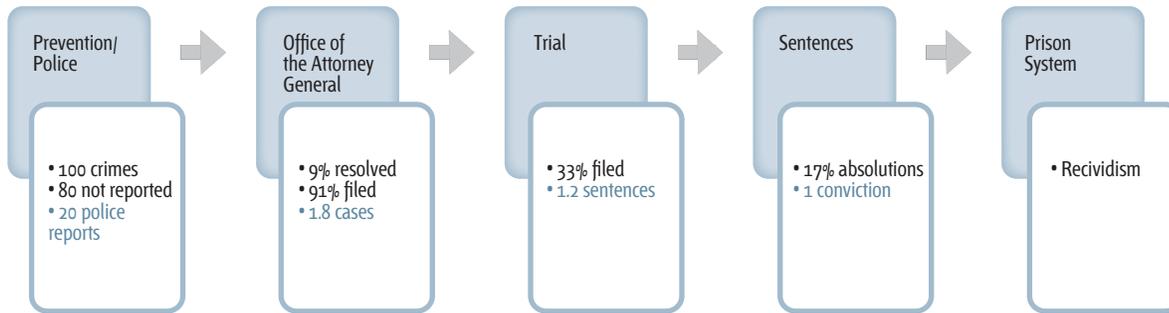
**4.58. The rate is only slightly better for homicides. In 2009, only 3.5 percent of homicides ended up in a trial.** There were 6,498 homicides, of which 4,626 entered the judicial system, of which only 230 ended up in a verdict.<sup>148</sup>

**4.59. About eighty percent of crimes are not reported to the police.** Victimization surveys are one way to find out the percentage of crimes that are not reported. According to a POLSEC study, underreporting rates per type of crime for the whole country hover around 80 percent for all crimes except car

147. Kennedy (2008).

148. Organismo Judicial (2009).

FIGURE 4.8: IMPUNITY RATE FOR ALL CRIMES



Source: POLSEC; UNDP; Instituto de Estudios Comparados en Ciencias Penales de Guatemala (2007).

theft (since a police report is required by insurance companies). Another study analyzes a set of six victimization surveys conducted in the municipality of Guatemala, and shows that rates consistently average around 75 percent.

**4.60. Under-reporting is symptomatic of the high levels of distrust of the police and the criminal justice system.** When asked about the reasons for not reporting, 59 percent said that they did not think it would have helped for anything, 10 percent said they were scared of retaliations, 6 percent argued complicated bureaucratic procedures, and 13 percent said that the offense was minor.

**4.61. Of the crimes that are filed with the Prosecutor's Office for investigation, only nine percent are sent to be tried in court.**<sup>149</sup> The other 91 percent is archived or dismissed due to multiple reasons that include lack of evidence, offender has not been identified, and so on. Of the cases that enter the courts for trial, one-third is archived. If only 1.8 percent of crimes were sent for trial, and 30 percent are archived, this would mean that only 1.2 percent of crimes end up in a trial.

**4.62. High impunity rates send the message to society that crime has no cost or consequence to the offender.** It eliminates the deterrent effect of criminal justice for future offenders and the healing or compensatory effect for victims of crime. Finally, it

deprives government from gaining crucial empirical information about the circumstances that lead people to commit crimes, which results from the operation of the criminal justice system and which is vital for effective policy making.

*Institutional factors that contribute to the impunity rate*

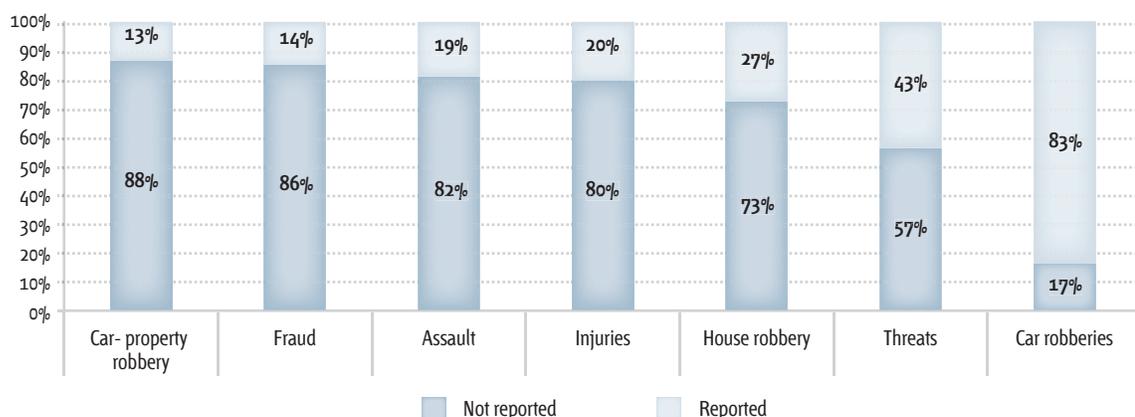
**4.63. The disfunctionality reflected in the high levels of impunity is a result of multiple factors.** In this section we focus on how the performance of the police and justice system contribute to this overall outcome.

*Police*

**4.64. Guatemalans' trust in their police is the lowest in Latin America and the Caribbean, after Argentina** (Figure 4.10). Allegations of police involvement in corruption, human rights violations, participation in 'social cleansing', drug trafficking, robbery, kidnapping for extortions and assassinations have brought frequent changes in staffing, even at the highest levels, and in the organization of the PNC. Within this unstable context, it is hard to build discipline, and as a result the image of the police as an institution has suffered. In turn, this situation makes police officers and government officials vulnerable to corrupt influences. The loss of staff from firing of police personnel, which fluctuates between 300 to 2,500 a year, many times cannot be offset by recruiting of new personnel.

149. Of the crimes that are reported to the police, not all make it to the Prosecutor's Office for investigation. Most likely causes for this include lack of suspects (no suspects, the product of the crime is not identifiable, small claims, etc.). Quantitative evidence is not available for this, but the suspicion is that it is relatively high.

FIGURE 4.9: UNREPORTED CRIMES IN GUATEMALA



Source: POLSEC (2005).

4.65. **Guatemala has the lowest police presence of all countries in Latin America** (Figure 4.11). There are about 25,000 police officers, for a ratio of about 180 per 100,000 inhabitants. When the number of officers employed in activities such as bodyguards for governmental officials, judges, prosecutors, and politicians, border patrol, or with duties in penitentiaries or jails is taken into account, only about 35 percent of this number is actually left to patrol the streets. The Central American average is 312 (almost double) and the South American average is 547 (triple). The peace accords mandated a police force of 20,000 officers, but in 2005 the United Nations Verification Mission in Guatemala (MINUGUA) recommended raising this number to 44,000. Levels of crime and violence are higher today not only compared to 1996, but also to 2004. The government of Perez Molina has announced its intentions to hire an additional 10,000 police officers.

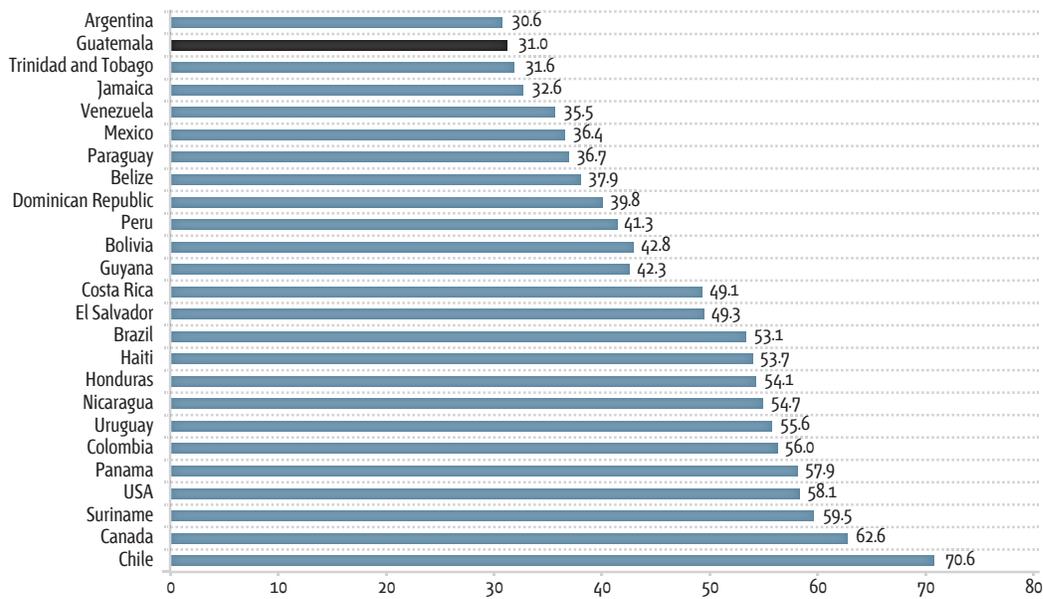
4.66. **The resources available to the PNC (which represent 70 percent of the budget of the Ministry of Interior) are dwindling.** More than 82 percent of these are fixed costs to the institution, leaving only a small margin for operations. Best practices, established by the experiences of other countries that have advanced in this area, suggest that fixed costs should not account for more than 35 percent of the total. This suggests that the PNC would need an additional 150 percent of its current budget, assuming that this entire increase would go toward operations.

4.67. **The qualifications of existing police officers are very low.** Police receive three months of train-

ing in the national police academy. The academy was almost closed in 2000 due to the lack of resources. The government is considering increasing the basic training period to 9 months and adding a special training course for officers. Some officers are able to take courses in other countries. However, these cannot compensate for the real lack of specialized training in line with Guatemala's legislation and culture that is needed for intermediate and high ranking officers.

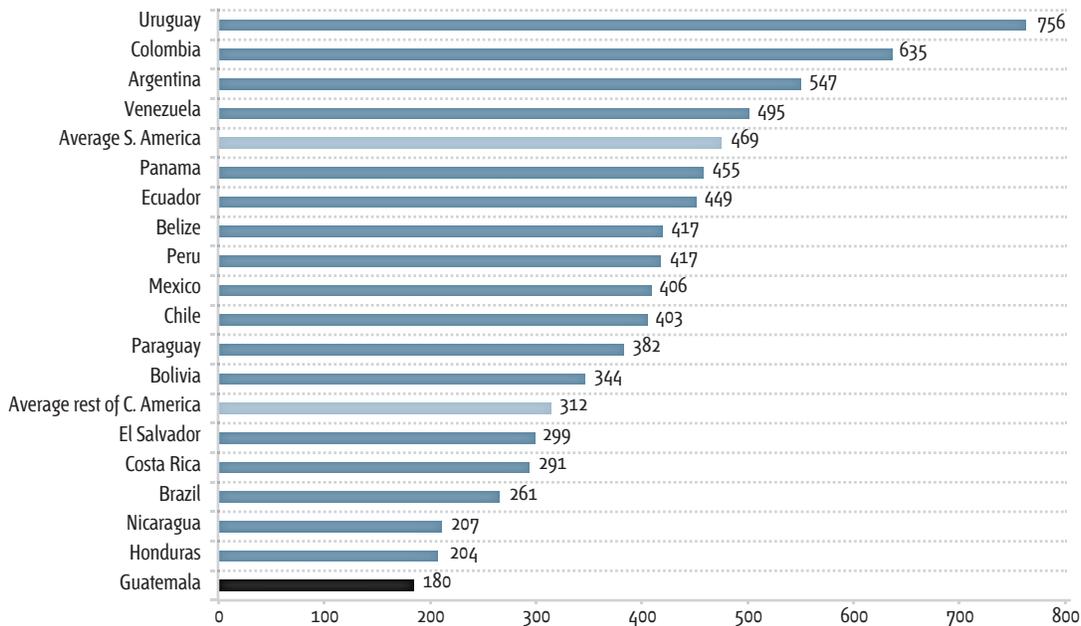
4.68. **The Ministry of Interior recognized in 2010 that 70 percent of police officers live in conditions of poverty.** They are located far from their nuclear families as part of a policy to avoid corruption and favoritism. Various South American countries adopted the opposite approach, based on the premise that police officers working within their own social networks would face more social pressure against corrupt behavior, and that officers would function more effectively in neighborhoods they know best. In contrast, the opinion of many Central American police is that it is better for officers to be based apart from their families because of the threats by organized crime and drug-related crime to their families. As a result, Guatemalan police officers live in the same areas where they work (some even sleep in the cells or hallways of the police stations) and spend a lot of their free time traveling to visit their families. With low-quality weapons, and without effective modes of communication, such as cell phones, police officers often feel they have no authority. The creation in the last decade of special units (Special Police Forces and Rapid-Action Groups) to address highly complex crimes and corruption es-

FIGURE 4.10: TRUST IN THE NATIONAL POLICE (2010)



Source: LAPOP, Latin American Opinion Project (2010).

FIGURE 4.11: POLICE FORCE PER 100,000 HABITANTS



Source: LAPOP, Latin American Opinion Project (2010).

tablished an elite caste of officers, who are granted better equipment and a sense of superiority toward their less fortunate colleagues.

4.69. **PNC has one-third the number of criminal investigators needed for the volume and type of crimes that it investigates.** This has been a problem for some time: on 2001, MINUGUA reported only 742 investigators in the PNC headquarters. In 2003, this number had decreased to 637, in contrast to the 1,500 recommended by MINUGUA. According to the Minister of Interior of the Colom administration, the government needs to triple the number of criminal investigators that it currently has from 2,000 to 6,000 to reach minimum international standards.

### Prosecuting crimes

4.70. The turnover rate is low, but it is improving. Despite the sustained increase in the volume of cases that were filed in the judicial system between 2007 and 2010, the percentage of cases that were tried has slightly increased during the same period. A possible explanation for this improvement is the increase in

the state's capacity to conduct forensic research. This would be consistent with the creation of INACIF (*Instituto Nacional de Ciencias Forenses*) in 2007 and the allocation of a substantial budget for its functioning.

4.71. **There is an insufficient number of public defenders with an ineffective geographical distribution.** In 2005 Guatemala had only 255 public defenders for more than six million people living in poverty. That is about 4 public defendants for every 100,000 poor people. The geographical distribution shows the urban bias: 49.5 public defendants in the metropolitan region versus 10.5 public defendants on average for the other departments. The allocation of public defendants does not correspond to the number of cases entered in the system. In 2005 the metropolitan area had a surplus of 13 percent while the other regions had a deficit of 7.8 percent.<sup>150</sup>

4.72. **The excessive duration of the judicial process is another significant shortcoming in the performance of the criminal justice system.** Since the judicial system does not measure the time that accused citizens are under investigation or trial, the ICCPG (*In-*

**TABLE 4.3: EFFECTIVENESS IN THE RESOLUTION OF CASES FILED IN FIRST INSTANCE, ACCORDING TO JUDICIAL CATEGORIES, (2005 & 2009)**

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua b/		Panama	
	2005	2009	2005	2009a/	2005	2009	2005	2009	2005	2009	2005	2009
<b>Effectiveness c/</b>												
Penal	112	99	62	65	65	72	56	32	69	77	72	104
Civil	63	37	148	199	21	21	95	29	36	20	105	104
Labor	108	113	188	142	69	48	88	52	31	31	111	97
Family	98	97	52	79	16	16	40	36	46	50	87	103
<b>Work Load d/</b>												
Penal	65	100	21	20	25	34	2	2	9	12	16	22
Civil	52	100	19	21	12	14	6	8	27	38	19	18
Labor	74	100	26	22	28	40	7	11	10	8	10	11
Family	91	100	83	94	215	296	26	33	39	85	91	97

Notes: a/ Data for El Salvador is for 2008; b/ Data for Nicaragua only includes cases for civil, labor and family filed in the first instance, and penal filed through the Code of Criminal Procedure. The methodology used only accounts for the cases closed the same year they were filed; c/ Proportion of cases closed by year to the cases filed the same year; d/ Proportion of cases filed by category to the total of cases filed that year.

150. Instituto de Estudios Comparados en Ciencias Penales de Guatemala (2007).

stituto de Estudios Comparados en Ciencias Penales de Guatemala) conducted in 2004 a research project across the country, providing empirical evidence of the abuse that exists in this area. The law stipulates that the maximum amount of time a person could be detained for investigation and trial is 164 days in case of preventive prison and 254 days if there is no preventive prison. The study showed that the actual time is 73 percent more of the maximum time in case of preventive prison (284 days instead of 164) and 47 percent more in case of non preventive prison (374 instead of 254).<sup>151</sup>

## G. CONCLUSIONS AND RECOMMENDATIONS

**4.73. Crime and violence in Guatemala is a multifaceted problem that calls for a comprehensive policy response given its multiple forms and presence across territories, demographic groups, and income levels.** In addition to being the country with the 7th highest homicide rate in the world, Guatemala is afflicted by many other forms of crime and violence, from domestic violence and femicides to extortions, kidnappings, armed robbery, and all sorts of illegal trafficking. While each type of event tends to be clustered in specific geographic areas of the country, when taken as a whole it is difficult to find places that lack some form of violence. Similarly, while male youth tend to be particularly affected by homicides, women and other age groups are also affected by other forms of violence. Finally, while victimization tends to increase with income level, poor people who cannot afford private security often have their neighborhoods controlled by criminal gangs, and are subject to everyday forms of violence.

**4.74. Governance institutions are being overwhelmed by the ability of criminal groups to infiltrate and capture them.** Weak institutions have not been able to cope with external pressures brought by increased drug trafficking and this, combined with deep inequality and lack of opportunities for youth at risk and other vulnerable groups, has produced the explosive situation that the country finds itself in.

**4.75. A review of government policies, budgets, outcomes and outputs suggests the need to rethink**

**the approach the government has been following so far.** Despite progress in some aspects or areas, overall, the government's response has been fragmented, discontinuous, and unbalanced. Confronting the challenge of criminal violence in Guatemala requires a comprehensive approach that addresses the multiple dimensions of the problem through prevention and law enforcement initiatives, coordinated by a clear authority within government, and with the capacity to oversee implementation of policies in a consistent manner.

**4.76. Expenditures seem to be low for the size of the problem.** Major rethinking is required to deal with the problem given the Guatemalan scarcity of resources. There is a need to boost resources along the security and justice value chain, especially for: preventive programs and community policing; law enforcement's manpower and equipment; policing operations; improved access to justice; improved prosecutors office capabilities; and penitentiary and rehabilitation systems.

**4.77. Better coordination of prevention programs is also needed.** The MOI should develop a system to monitor the execution of all programs related to crime and violence prevention, including those implemented by other sectoral ministries. The government should create an inter-ministerial coordination mechanism to review this information and identify areas for performance improvement. A useful exercise for this group would be to assess whether the main risks for crime and violence have a matching program or set of interventions to address them and the extent to which these programs are deployed in an integrated fashion in the hot spot communities that concentrate these risks. The government should also consider whether (i) it is desirable to give formal authority for coordinating interventions to one of the ministries, for instance, authorizing it to be present in the decision making process and even resource allocation of other ministries' programs when they have an important citizen security function; and (ii) decide whether this role should be given to the Ministry of Interior.

**4.78. A short-term priority for government should be to improve its information systems on (a) the**

151. Ibid.

**incidence of crime and violence and (b) the performance of the security and justice institutions.**

The decision making process cannot perform properly without quality and appropriate data and data analysis. This review found many gaps in this area. Information systems are also critical for improved coordination and accountability. Below are some recommendations on how to approach this task.

4.79. **Guatemala should invest in a second generation crime and violence information system.** This system should (a) capture the range of crime that goes unreported, (b) validate the data that is generated, (c) produce key descriptive information about the characteristics of the crime, and (d) feed all this data into a geo-referenced, user-friendly system that is useful for pro-active, results-oriented decision making on citizen security. Violence observatories are an institutional “technology” that has been proven useful to address this challenge, usually combining a national level unit that works to coordinate with, and improve national government information systems with, a network of municipal observatories in hot spot municipalities that validate and use the data for local citizen security strategies. Key descriptive information needed for decision making include: type of incident (homicide, robbery, assault, car theft, rape, etc); date, time, day of the week, address of where incident takes place, neighborhood; victim and perpetrator information (name, age, sex, occupation, literacy level, home address); type of weapon and context of event (interpersonal violence, domestic violence, organized crime, gang related, confrontations with law enforcement); and relationship of perpetrator to victim. The objective information captured by government systems should be complemented with regular standardized surveys that produce subjective and situational information on victimization, perception of insecurity, violent attitudes, coping behaviors to reduce victimization, and urban and social characteristics of hot spot communities.

4.80. **Guatemala should also strengthen its information system on the performance of security and justice institutions.** To assess the performance of citizen security institutions, government should build a core set of indicators for each of the pillars of the value chain (prevention, law enforcement, criminal investigation, criminal justice, penitentiary, rehabilitation). These indicators should serve to benchmark prog-

ress and ensure greater dialogue and coordination across the multiple actors involved in the citizen security sector. Indicators could include: share of public expenditures per pillar; coverage in terms of number of personnel per capita assigned to each of the pillars, whether police, public prosecutors, public defenders, etc; managerial capabilities; recidivism rate; and citizen confidence in public institutions.



CHAPTER 5  
BUDGET PROCESS, PUBLIC FINANCIAL  
MANAGEMENT AND PROCUREMENT

## » A. Introduction

**5.1. Sound Public Finance Management (PFM) systems help countries manage their public resources to achieve key strategic goals.** The political process determines the allocation of resources within the overall budget envelope. Then, Ministries and Agencies decide how to spend them, subject to control and accountability mechanisms. The processes through which those decisions are made and carried out are known as PFM systems. Thus, PFM seeks the fulfillment of strategic objectives through interactions of systems, institutions and practices, with three main objectives: (i) to promote strategic priorities; (ii) to ensure fiscal discipline; and (iii) to deliver value for money.<sup>152</sup>

**5.2. The annual budget process, which is the central component of PFM, tends to be strongly influenced by political interests and institutional arrangements.** It is therefore important to anchor that process to clear and transparent rules. The Public Expenditure and Financial Accountability (PEFA) assessment measures the core budget processes based on best practices within six critical dimensions: (i) budget credibility; (ii) comprehensiveness and transparency of the budget; (iii) policy-based budgeting; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; and (vi) external scrutiny and audit. The PEFA assessment measures PFM system performance by scoring 28 key indicators and uses them to compare systems over time and across countries.

**5.3. Guatemala has a strong Financial Management Information System (FMIS) in place.** FMIS support the government in carrying out financial processes and transactions in an automated manner. In addition, FMIS help governments produce reports on the financial situation of the overall public sector to facilitate and make accountable decisions over the use of public resources.<sup>153</sup> In the case of Guatemala, the FMIS is known as the Sistema de Administración Financiera (SIAF) within a core accounting functionality called Sistema de Contabilidad Integrada (SICOIN). The first phase of the SIAF was launched in 1997; since then, it has been expanded and improved with World Bank assistance.<sup>154</sup> The SIAF meets important requirements: (i) it covers the core PFM systems (i.e. budget, treasury, and accounting); (ii) it covers most of the public sector entities including the municipal governments; (iii) it operates under a Web platform which enable users to interact in real time with the system; (iv) it produces on-line reports, many of which are publicly accessible; (v) it enables sectors

<sup>152</sup> See DfID (2001) and PEFA (2005).

<sup>153</sup> See World Bank (2011b).

<sup>154</sup> For a more detailed reference of the Guatemala experience on FMIS reforms see World Bank (2011b).

to track and assess the situation of some financial as well as administrative processes through the Sistema de Informacion y Gestion (SIGES) system; and (vi) it is interlinked (albeit not yet completely) with the e-procurement system (Guatecompras).

**5.4. Part A of this chapter is drawn primarily from the PEFA report.** The report was jointly prepared by the World Bank, Inter-American Development Bank and European Commission in 2009. Box 5.1 lists the main strengths and weaknesses of the Guatemalan PFM systems found by the PEFA report. It also includes some sensitive topics identified by the PEFA analysis that are affecting the system's overall credibility and represent broader governance challenges. Based on these findings, the section is organized as follows: On budgeting, Section 1 describes the budgeting process; Section 2 looks at the predictability and control in budget execution; Section 3 examines accounting, recording and reporting; and Section 4 evaluates external scrutiny and audit. On PFM practices, Section 5 presents the alternative vehicles to execute the budget outside the SICOIN system; Section 6 analyzes the quality of expenditures of the alternative vehicles; Section 7 looks into the accountability mechanisms of the alternative vehicles; Section 8 examines floating debt issues; and Section 9 summarizes the main conclusions and recommendations.

**5.5. Part B draws on a new set of detailed procurement data, as well as a number of analytical studies conducted in recent years.** It includes examples of the specific challenges faced in the procurement of pharmaceuticals, as well as in the procurement of public works for infrastructure projects.

#### Box 5.1: PFM STRENGTHS AND WEAKNESSES IDENTIFIED BY THE GUATEMALA PEFA (2009)

##### Strengths

- general public has access to fiscal information in a user-friendly way and without restrictions;
- a debt sustainability analysis (DSA) is undertaken annually for both domestic and external debt; and
- the tax administration plans and carries out annual audits based on integral risk management system as well as is able to maintain the taxpayers registry updated.

##### Weaknesses

- considerable variation of the expenditures composition from the original budget;
- high level of arrears that cannot be confirmed accurately and opportunely;
- budget classification not fully aligned to international standards especially on functional classification critical to track spending by purpose;
- incomplete reporting on budget execution;
- lack of consolidated fiscal information of the overall public sector;
- omission of some account balances;
- lack of a single human resources database, incomplete descriptions of personnel profiles, and lack of audits of the human resources systems;
- widespread use of non-competitive processes to procure goods and services; and
- weak internal and external accountability mechanisms, including the role of Congress in overseeing the decisions of the Executive.

## B. BUDGET PROCESS AND PUBLIC FINANCIAL MANAGEMENT

### Key challenges in the budget cycle

5.6. **Guatemala's budget process is characterized by the co-existence of good practice and vulnerabilities.** It is supported by detailed norms and regulations, an Access to Public Information Law and a good practice e-government system, the Integrated Financial Administration and Governmental Audit System (SIAF-SAG). Recent improvements to the SIAF, which supports the budget cycle, mean that the main PFM systems are now internally coherent, sophisticated and powerful in recording and integrating financial management information for the entire public sector. The SIAF provides timely, accurate, and comprehensive financial and, increasingly, performance data to officials and public alike, and is a fundamental building block for the extension and consolidation of modern results informed budgeting within the context of multi-year framework. These formal advances are reflected in the country's performance in the 2010 Open Budget Index, ranking highest in Central America (IBP 2010). At the same time, the budget process in practice is rife with unsanctioned violations of legal norms, limited usage of formal systems, de-linkages with sector needs, and limited expenditure control, to name a few.

The main remaining vulnerabilities of the budget process are the following:

- a) *Weak linkages between planning and budgeting.* Also, there is no systematic evaluation of results attained;
- b) *Large budget reallocations.* During budget execution, sectors tend to modify the original budget allocation, which reduces the overall budget credibility;
- c) *Alternate vehicles to execute the budget.* *Fideicomisos* and NGOs manage public resources outside the budget, making difficult to assess the quality of expenditures and perform the corresponding external audits properly;
- d) *Lack of control over the Floating Debt.* Debt is created without the corresponding budget credits—

which affects the credibility of the fiscal targets; and

- e) *Weak controls and sanctions.* The sanctions regime is weak to effectively deter practices that are not consistent with PFM systems performance and credibility.

### Budget preparation

#### Process

5.7. **As with the other phases of the budget process, budget preparation is principally governed by the 1997 Organic Budget Law and its regulation.**

Responsibility for budget formulation is assigned in these norms to the Technical Commission for Public Finance (CTPF), a body presided by a Vice-Minister of Finance and composed of high-ranking Ministry of Finance (MOF), National Planning Secretary (SEGEPLAN), SAT and, upon invitation, Central Bank (BANGUAT) officials. Between January and May each year, MOF and SEGEPLAN elaborate the (i) strategic orientations of public policy, (ii) budget norms, (iii) norms for the elaboration of annual operating plans and, subsequently, (iv) an exploratory budget with ceilings for each public institution. Between April and May, tax revenue projections are calculated by SAT and MOF on the basis of macroeconomic projections by BANGUAT, and MOF undertakes public debt projections. Between May and June, a technical proposal with (i) the total budget, (ii) budget ceilings for each public institution, (iii) estimated total revenues, (iv) revenue sources and (v) budget norms is presented to the President and his cabinet. Budget ceilings frequently lie below those demanded by the Ministries and Secretaries. The Presidential approval of this proposal is thus accompanied by intense lobbying by Ministers and other political operators with cabinet access, pressing for larger budget allocations or modifications to revenue sources and budget norms. While these norms are generally regulated in the Organic Budget Law, they are complemented by specific dispositions in the annual budget. These have been important vehicles for enhanced budget transparency in recent years, for instance by mandating the registry of public expenditure operations in the SIAF system.<sup>155</sup>

155. Barrientos (2011).

**5.8. Based on the approved budget ceilings, the institutional programming phase of public institutions commences.** Public investment projects are coordinated between central-level institutions, in particular SEGEPLAN, and the Departmental Development Councils (CODEDEs), which are to aggregate projects prioritized by planning processes in the community and municipal development councils. In July, draft programming proposals are submitted by each institution to MOF for its revision and integration. In August, a budget project is presented by MOF to the economic cabinet, and from there it advances to the general cabinet for discussion and Presidential approval. Once the draft budget is sent to Congress, Guatemala's Constitution stipulates that Congress is empowered to approve, reject or modify the budget proposal's size, composition and revenue sources at will. This amendment power places Guatemala in cross-country terms on the far end of legislative leverage over the budget process.<sup>156</sup> And, indeed, legislative amendments to the executive's budget proposal – with inter-institutional modifications of budget allocations amounting to an average of 4.9 percent<sup>157</sup> of the total budget in 2008-12 – seem to be more pronounced in Guatemala than in other Latin American countries for which data is available.<sup>158</sup>

### **Policy orientation of the budget**

**5.9. The Government adopted a policy-based budgeting approach, which is designed to ensure due regard to government policies in the budgeting process.**<sup>159</sup> In operational terms, policy-based budgeting requires that budget preparation be carried out through a programmatic structure where the stated programs reflect the policy intentions. A more detailed description of those policy intentions are stated in the annual operational plans which describe the programs, subprograms, activities and tasks to be carried out during the annual fiscal year mainly in physical

terms and estimations of associated costs, including in some cases estimations of unitary costs. These cost estimations form the basis for the preparation of the budget by linking the program structure of the annual operating programs (*Programas Anuales Operativos*, POAs) with the program structure of the budget. Under the annual operational plans specific and measurable objectives, outcomes, and indicators are added to the individual programs, in order to facilitate monitoring of results and allow for evaluation of performance.

**5.10. However, in practice, this approach is not fully implemented because the FMIS cannot support disaggregated spending categories, limiting sectors to include in the budget only aggregate activities, which - once the budget is approved - facilitate reallocations among categories.** Thus, the more detailed activities and tasks of the operational plans are not fully incorporated in the budget. Also, sectors have no incentives to review the unitary costs of activities because if they found that fewer resources were needed to deliver services or procure goods, this could result in lower budget allocations the following year. On the other hand, these revisions are critical to ensure the quality of program budgeting in order to keep it consistent with the public policy goals. In addition, and depending on the accounting capabilities of the FMIS, sectors in the POAs might only estimate the direct costs of their activities because the indirect costs such as salaries, utilities, and others cannot be disaggregated. Also, if the unitary cost of health services does not include the depreciation of a health facility, funding for maintenance may not be budgeted and services would deteriorate over time.

**5.11. To overcome these problems, budget preparation has been evolving from program budgeting (with no effective links to planning) towards a more performance-oriented budgeting.**<sup>160</sup> These efforts

156. See, for instance, Wehner (2006).

157. As in subsequent calculations, the percentage refers to the sum of the modifications of budget ceilings for public entities. Following the country's legal dispositions, only inter-institutional modifications – i.e. those which would require in the execution stage a presidential rather than only ministerial decree to be undertaken – are considered (see annex A for the resulting level of disaggregation).

158. The 4.9% average exceeds the 1997-2005 averages for Colombia, Peru, Venezuela, Brazil, Ecuador and Bolivia presented in Hallerberg et al. (2009).

159. PEFA (2005).

160. The evolution from program to performance budgeting comprises at least four stages. The first stage consists of setting up the program structure within a wider context of budget planning and policy, often as part of a Medium Term Expenditure Framework (MTEF), which is considered a strategic element to connect policy objectives with detailed annual budget plans. In a second stage it is critical to provide budget managers with more flexibility by removing the institutional and information constraints in order to make activities, programs, and strategic goals more consistent among each others. The third stage foresees the improvement and expansion of budget-costing systems. Finally, the fourth and most complex stage foresees the introduction of new accountability mechanisms and budget incentives to complete a policy-based budgeting that ensures an effective and efficient use of public resources management.

began in 1997 when the Ministry of Finance (MOF), in conjunction with sectoral ministries, started to review the programmatic structure of the budget and to make the budget processes more comprehensive. Although these revisions have enhanced the program-based budgeting focus, by enabling sectors to allocate resources to programs, subprograms, projects, activities and works, the association between activities and programs still needs to be improved. In some cases, activities are defined very broadly (i.e. administrative cost or vaccination) which makes it difficult to assess their relevance for the programs they are part of.

5.12. **Since 2007, the MOF has implemented - on a pilot basis - a budget based on results, with support from the European Commission (EC).** The objective is to improve the links between the planning with budgeting processes by defining results indicators and the program structure both in the operational plans as well as in the budget. The critical element of the new methodology is the definition of the results to be achieved with the available resources. The Ministries of Health, Education, and Interior were selected as pilots, and since 2008, their budget proposals have been incorporating the new methodology. The Ministry of Health has made significant progress: its 2012 budget defines two strategic objectives based on the MDGs - (i) percentage of children under five whose height are under the average of the reference population, and (ii) the proportion of births attended by medical staff or nurses (institutional delivery), and it allocates resources to programs aimed at achieving those indicators. Although the pilot initiatives seem promising, the risk is that they may not be sustainable because the legal framework remains unchanged, in particular in relation to the Medium-Term Expenditure Framework (MTEF). The General Budget Law does not provide a reference framework for the medium term, and neither do its guidelines. Its Article 8 makes a broad reference to the production and presentation of a multiannual budget, but it's not clear whether it refers to two, three or more years.

5.13. **To expand the use of the new methodology, the MOF has encouraged sectors to use a de facto MTEF by proposing sectoral indicators associated to budget preparation.** However, there is internal

resistance to the change, ownership of those indicators remains weak, and there is no formal evaluation of the resulting indicators. It is expected that once the pilot initiative ends and the methodology has been adjusted, more sectors will go through the process of reviewing their program structure, defining results indicators, improving the budget preparation, and getting better results from the use of public resources.

5.14. **In particular, the MOF is interested in carrying out impact evaluation studies of public expenditures in cooperation with sector ministries.** In this context, the MOF is planning to implement on a pilot basis an expenditure review of some critical programs, beginning with the child nutrition program executed by the Ministry of Health. Although Guatemala has allocated significant resources to combat child malnutrition, the country has one of the worst malnutrition indicators in the world. The objective of the revision is to establish if the service has been delivered efficiently and in a timely fashion.

#### *Predictability and control in budget execution*

5.15. **PFM systems are crucial in ensuring compliance during budget execution.** Principally regulated by the 1997 Organic Budget Law, budget execution falls under the sway of the CTPF. Control of compliance has been facilitated since 1998 by the SIAF-SAG system for which more recently specialized subsystems for accounting (SICOIN), purchasing and contracts (GUATECOMPRAS), and personnel administration (GUATENOMINAS), among others, have been created. In parallel, a National Public Investment System has been developed by SEGEPLAN. SIAF and its subsystems are operating in the central government as well as all of the country's municipalities. Thanks to these systems and the 2008 Access to Public Information Law, access to budget execution details is largely available to the public.<sup>161</sup>

5.16. **Reallocations within the budget during execution are highly discretionary and significant in scope.** While constrained by budget rigidities such as legislative earmarks and demands by public sector unions, the executive may regain control over budget execution through intra-institutional (via ministerial decree)

161. Barrientos (2011).

and inter-institutional (via presidential decree) budget transfers. In view of the country's exposure to natural disasters, imperfections in budget planning and potential fluctuations in its (limited) revenues requiring spending adjustments, this executive power is well warranted.<sup>162</sup> However, budget transfers lend themselves to political bargaining, and make it difficult to follow through on the policy objectives supposedly represented by the budget. In fact, the average variance in excess to the total deviation, which measures the overall budget reallocation, was 11 percent in 2005-2010. This means that the composition of actual expenditures compared with the original budget exceeded at least twice the international standard<sup>163</sup> Thus, most sectors thus have little certainty over whether the full budgeted resources will be available to fund their programs and projects. Reallocations among programs within the same ministry do not require Cabinet approval, but reallocations from one ministry to a dependent Secretary or to another ministry required Cabinet approval. Once the approval has been obtained, the beneficiary ministry can start to use the additional resources while the MOF updates the information in the SICOIN accordingly. Table 5.1 presents the actual expenditures by ministry, compared to the original approved budget for the period 2008-11.

**5.17. Although the MOF has implemented a quarterly spending quota mechanism to support budget execution, the system does not yet worked as expected.** As the 2009 PEFA showed, the quarterly allocation system works well during normal times. However, in times of a tightening fiscal situation, such as during the global economic crises of 2008-2009, the quota system breaks down. Spending quotas were restricted to monthly limits, and any balances at the end of the month had to be reimbursed to the treasury. In this situation, budget execution was affected because sectors could not predict if enough liquid resources would be available to pay commitments and accruals. The inability to pay accruals in some entities contributed to the generation of arrears. The lack of resource

predictability in this situation also presents an obstacle to effective results-oriented management. One of the reasons why the quota mechanism does not work as expected is because of the lack of ex-ante controls, resulting from the simultaneous (rather than chronological) entry of commitments, accruals and payments in the information system, which does not allow the treasury to predict cash needs in advance.

### *Accounting, recording and reporting*

**5.18. The third element that affects budgeting and PFM systems performance is the accounting, recording and reporting of financial transactions.** In particular, the Government faces challenges in producing its financial statements and reports according to international standards. Those challenges are mainly related to the fact that it is possible to execute part of the budget outside the SICOIN system. Nevertheless, in 2010, the MOF presented for the first time the General Government financial statements including the Balance Sheet Statement.<sup>164</sup> This is an important step towards making the public accounts more transparent and accountable.

**5.19. On the accounting front, the government faces two important challenges.** First, accounting for land and buildings, where the book value has remained unchanged for more than 40 years and has not been adjusted by either market prices or depreciation.<sup>165</sup> However, in many cases the MOF does not have the information required and consequently cannot properly register (in accounting terms) some fixed assets.

**5.20. The second challenge is related to the accounting and registry of works and public infrastructure built through trust funds (*fideicomisos*).** In general, these works and infrastructure are property of the *fideicomisos* and are kept in their accounting books. But before transferring those accounts to the General Government financial statements, it is neces-

162. As a caveat to this power, the executive is prohibited from undertaking transfers which shift investment to current expenditures. As a consequence, budget bills tend to overestimate current expenditures - for instance through a deliberate overestimation of debt service obligations - with a view to providing the executive with some leeway to augment current expenditures if need be (Barrientos 2011).

163. In that regard the PEFA methodology for PI-2 outlines that the country might get a D when the variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

164. Although there still were some accounts below the line equivalent to 10 percent out of the total balance in 2010, the financial statements were formally signed by MOF.

165. Since the accounting systems are not based on accrual basis the depreciation of fixed assets is not incorporated in the balance sheet.

**TABLE 5.1: DEVIATIONS OF ACTUAL FROM ORIGINALLY APPROVED BUDGET (2008-2010)**

Public Institution	2008			2009			2010			2011		
	Initially approved budget	End of year budget	% variation	Initially approved budget	End of year budget	% variation	Initially approved budget	End of year budget	% variation	Initially approved budget	End of year budget	% variation
Presidency of the Republic	164	175	7%	191	213	11%	191	208	9%	185	231	25%
Ministry of Foreign Relations	250	283	13%	220	304	38%	220	285	30%	278	302	8%
Ministry of Governance	2,610	2,369	-9%	3,275	2,700	-18%	3,275	2,708	-17%	3,275	3,160	-4%
Ministry of National Defense	1,265	1,261	0%	1,301	1,309	1%	1,301	1,278	-2%	1,555	1,543	-1%
Ministry of Public Finance	227	235	3%	213	228	7%	213	246	15%	309	271	-12%
Ministry of Education	6,500	5,899	-9%	7,588	8,344	10%	7,588	9,350	23%	9,323	10,251	10%
Ministry of Public Health	3,000	2,764	-8%	3,738	3,342	-11%	3,738	3,840	3%	3,930	4,454	13%
Ministry of Labor	352	266	-24%	358	505	41%	358	632	77%	594	591	-1%
Ministry of Economics	230	352	53%	237	205	-13%	237	276	17%	275	257	-7%
Ministry of Agriculture	1,231	1,185	-4%	828	664	-20%	828	978	18%	631	820	30%
Ministry of Communications, Infrastructure and Housing	3,000	4,447	48%	4,594	5,293	15%	4,903	6,733	37%	4,359	8,185	88%
Ministry of Energy and Mining	46	48	4%	47	50	7%	47	119	154%	100	87	-13%
Ministry of Culture and Sports	332	285	-14%	444	362	-18%	444	407	-8%	356	355	0%
Secretaries and Other Executive Dependencies	2,020	2,553	26%	2,742	3,119	14%	2,742	3,127	14%	2,190	2,437	11%
Ministry of the Environment and Natural Resources	41	52	25%	98	78	-21%	98	89	-9%	139	153	10%
State Obligations in Charge of the Treasury	14,594	15,295	5%	16,986	16,689	-2%	16,986	16,744	-1%	18,083	18,195	1%
Public Debt Service	6,626	6,425	-3%	6,812	6,577	-3%	6,812	7,212	6%	8,754	7,825	-11%
General Attorney's Office	47	43	-8%	53	53	0%	53	52	-1%	55	58	6%
<b>Total</b>	<b>42,535</b>	<b>43,936</b>	<b>3%</b>	<b>49,723</b>	<b>50,032</b>	<b>1%</b>	<b>50,032</b>	<b>54,283</b>	<b>8%</b>	<b>54,391</b>	<b>59,175</b>	<b>9%</b>

Source: Barrientos (2011) and Ministry of Finance.

sary to carry out a reconciliation of accounts. In the past the MOF transferred resources from the budget to those *fideicomisos*. In accounting terms the transaction was registered as a reduction of cash accompanied with an equal increase of accounts receivable. The *fideicomisos* have little incentives to regularize expenditures (e.g., through invoices and receipts registry into the SICOIN) in a timely manner. Therefore, as the fiscal space allows and the works and infrastructure are in progress or concluded, the MOF activates a regularization account named “Construction in Progress” as part of the fixed assets to reconcile accounts. As “Construction in Progress” is increased, the “accounts receivable” is decreased accordingly. However, “Construction in Progress” represents 41 per cent out of the total General Government assets and 60 per cent out of total Central Government Assets, which represents a huge portion of the public assets subject to regularization. While this account appears in the public financial statements, a complete reconciliation process is still pending.

**5.21. Regarding the adoption of international accounting standards, the current information technology (IT) systems have serious limitations that make it difficult to incorporate the standards.** Therefore, the MOF is interested in exploring options for a new IT system more oriented to support administrative as well as financial processes. In this context the MOF is also interested in options of integral packages that might be found in the market, including the possibility of a Government Resource Planning (GRP).

### *External scrutiny and audit*

**5.22. Budget control and evaluation are both normatively and substantively the least developed phases of the budget process in Guatemala.**<sup>166</sup> Each public entity has a unit of internal auditing with external oversight provided by the General Auditor’s Office (*Contraloría General de Cuentas*, CGC). The 2003 Law of the CGC provides it with modern audit procedures, but – due to legal ambiguities and limited resources – constrained abilities for sanctions. Violations of legal norms related to the budget process

go largely unpunished.<sup>167</sup> Instead, the CGC is primarily engaged in process audits, in particular ex post audits. While also having a corresponding mandate, the CGC’s involvement in public spending quality and impact evaluations has been limited to-date. Similarly, SEGEPLAN, while also legally tasked with the evaluation of public investments, has in practice assumed only a limited role.

**5.23. The Constitution establishes that the CGC has to audit annually the General Government financial statements to inform Congress about the collection of revenues as well as expenditures.**<sup>168</sup> The CGC evaluates the budget execution and the way it was carried out by the corresponding entities (i.e. the associated procurement processes). These audits are performed through the revision of the financial reports generated by the SICOIN system and documents presented by the Accountant General Office to the CGC. In general, the auditors’ opinion has been qualified, which means that the Central Government entities followed the international accounting rules appropriately with some minor exceptions. Thus, the financial statements are deemed to represent fairly their financial situation.

**5.24. On the other hand, decentralized and autonomous entities are audited based on the financial statements and reports generated by the respective PFM system (SIAF-Muni in the case of municipal governments).** In general, the auditor’s opinion has been mixed with clean opinion in some cases and with caveats in others. A clean opinion is equivalent to a qualified opinion used in the case of Central Government entities. Figure 5.1 presents the type of the auditor’s opinion for the decentralized and autonomous entities in 2006-2010.

**5.25. Beyond the auditor’s opinion, the audit comes along with a set of sanctions that the auditor recommends for public officials who are accountable for the misuse of resources.** However, the amounts of those resources are difficult to estimate. Further, sanctions can be appealed to the General Auditor’s Office for reductions of up to 90 percent, and most of

166. Barrientos (2011).

167. Next to the CGC, the legislature can request inquiries and, when offenses are detected, submit cases to the Attorney General’s Office. In practice, however, this has not been an important pathway for budget control.

168. The corresponding audits outcomes for 2006-2010 are posted at the following link [http://www.contraloria.gob.gt/l\\_inf.php](http://www.contraloria.gob.gt/l_inf.php).

the reductions are granted. Therefore, the sanctions structure is relatively weak, which affects the credibility of PFM systems.

### Key challenges in PFM practices

5.26. **The key challenges in PFM are (i) the fact that it is possible to execute the budget outside the SICOIN system; and (ii) the practice of generating arrears or “floating debt”.** As indicated, the FMIS is well equipped to carry out the overall budget execution and ensure automated controls to make the public sector more accountable and transparent. However, alternate vehicles can be used to execute the budget, thereby reducing transparency and accountability. This part describes and comments on two types of alternative vehicles – the *fideicomisos* and the agreements with NGOs– as well as the practices that create the problem of floating debt.

### Alternative vehicles to execute the budget outside the PFM systems

#### Trust Funds (*fideicomisos*)

5.27. **Trust funds as a parallel budget execution mechanism first emerged in response to the 1976 earthquake.** In light of the emergency, a fund was set up following private sector statutes, rather than by a new regulation. The *fideicomiso*, acting as a single coordinating mechanism across different public entities, enabled the Government to quickly disburse funds for reconstruction. The lack of a specific legal disposition implied that trust funds represented an agile execution mechanism in the context of otherwise onerous regulations, in particular regarding procurement. Allowing for multi-year expenditure programming, trust funds also offered advantages for budget predictability.

5.28. **Although legislation regulating *fideicomisos* refers only to private trust funds, public *fideicomisos* operate under the same legislation.** The Commercial Code of January 1971 (Legislative Decree 2-70)

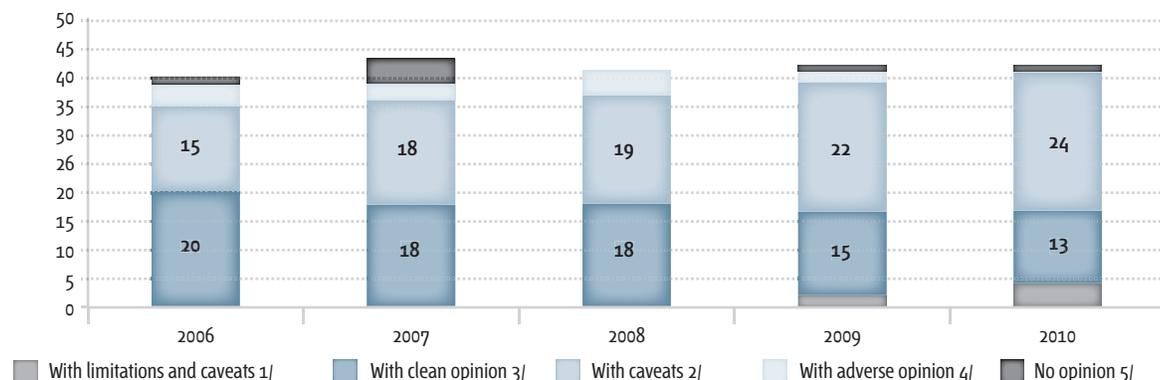
is the primary legislation that regulates *fideicomisos*.<sup>169</sup> A *fideicomiso* is constituted through a contract that involves three parties: (i) the Constituent (*fideicomitente*) who transfers goods and rights to constitute the *fideicomiso*; (ii) the Trustee (*fiduciario*) who receives and manages goods and rights until the *fideicomiso*'s objectives are achieved; and (iii) the Beneficiary (*fideicomisario*) who will benefit from the activities financed by the *fideicomiso*. The beneficiary might or might not be specified in the *fideicomiso*'s charter.

5.29. **The application of legislation originally designed for private sector *fideicomisos* creates a number of accountability issues.** While the use of trust funds per se is not inadvisable, the circumvention of the Organic Budget and Contracting laws, among others, raise transparency concerns in Guatemala.<sup>170</sup> While public *fideicomisos* are similar to private ones in that the Government (as *fideicomitente*) transfers funds and rights to the *fiduciario*, there are a number of important differences. First, public expenditure is generally required to follow public financial management and procurement procedures; however, these are not applied to public *fideicomisos* because they are regulated by private sector law. Similarly, monitoring and accountability mechanisms (including audits) that would generally apply to public spending are not applied equally to public *fideicomisos*. As a result, there is limited information on the execution of public spending through *fideicomisos*, compared to regular public spending carried out through the SICOIN system.

5.30. **Public *fideicomisos* have been an increasingly popular modality for executing spending, especially by Central Government entities.** Today, there are more than 60 *fideicomisos* operating in a wide range of sectors. Figure 5.2 shows that the budget resources managed through *fideicomisos* more than doubled between 2004 and 2010. 70 percent of this execution may be attributed to the country's road maintenance fund (COVIAL) and housing fund (FOGUAVI) – both under the Ministry of Public Works – as well as the national peace fund (FONAPAZ) and national development fund (FONADES). Another part of the increase stems

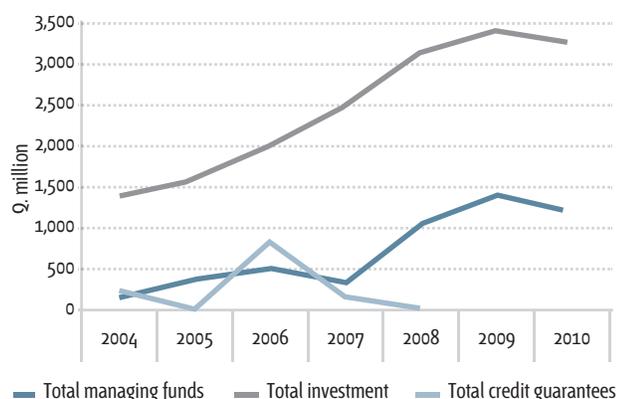
169. In addition, there are new guidelines applicable to public *fideicomisos*, such as the Operational Manual (April 2010), which outlines the PFM procedures that the *fideicomisos* must follow to regularize expenditures and formulate the budget. This manual was approved through a ministerial accord. In addition, the Budget Law of 2011 sets out rules to regulate the *fideicomisos*' functioning and to make them more accountable. However, this Law is only mandatory within the same budget year, which creates uncertainties over their sustainability in future years.  
170. These were addressed in part in 2008, with the creation of detailed reporting requirements for executed public expenditures.

**FIGURE 5.1: CGC AUDIT OPINION REGARDING BUDGETED REVENUES AND EXPENDITURES OF DECENTRALIZED AND AUTONOMOUS ENTITIES (2006-10)**



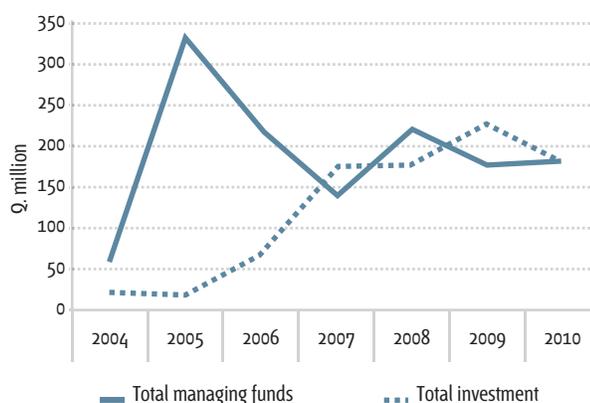
Notes: 1/ an opinion with limitations and caveats establishes that, except of the pointed limitations and caveats, the financial statements presents fairly the financial situation and operations outcomes of the entity in accordance to the International Accounting Standards. 2/ an opinion with caveats establishes that, except of the caveats, the financial statements presents fairly the financial situation and operations outcomes of the entity in accordance to the International Accounting Standards. 3/ a clean opinion establishes that the financial statements presents fairly the financial situation and operations outcomes of the entity in accordance to the International Accounting Standards. 4/ an adverse opinion, establishes that the financial statements do not presents fairly the financial situation and operations outcomes of the entity in accordance to the International Accounting Standards. 5/ no opinion establishes that the auditor cannot express an opinion because the limitations found cannot enable the auditor to audit the financial statements in accordance to the International Accounting Standards. Source: CGC

**FIGURE 5.2: CENTRAL GOVERNMENT FIDEICOMISOS: RESOURCES ALLOCATED BY PRIMARY PURPOSE (2004-10)**



Source: Staff estimations based on MOF information

**FIGURE 5.3: AUTONOMOUS AND DECENTRALIZED FIDEICOMISOS: RESOURCES ALLOCATED BY PRIMARY PURPOSE (2004-10)**



Source: Staff estimations based on MOF information

from the introduction and rapid expansion of the conditional cash transfer program *Mi Familia Progres*a.

5.31. **Fideicomisos fulfill a number of different functions.** In line with the different nature and objectives of the *fideicomisos*, the MOF classifies them into three categories: (i) those that manage funds that are distributed in the form of targeted or general subsidies; (ii) those that invest in infrastructure; and (iii) those that provide credits and guarantees. The financing provided through *fideicomisos* can be (i) reimbursable (mainly credits and credit guarantees); (ii) non-reimbursable;

or (iii) a combination of the two. *Fideicomisos* can be executed either by the Central Government or by autonomous and decentralized entities. In 2004-2010, 69 percent of Central Government *fideicomisos* were for investment, 26 percent managed funds, and 5 percent provided credit guarantees. Of the Autonomous and Decentralized *fideicomisos*, 61 percent managed funds and 39 percent were for investment.

5.32. **Public fideicomisos have played a particular important role in the execution of capital expenditure.** Since 2009, the MOF has registered and report-

ed the budget execution of all *fideicomisos* that have received funds from the budget, in accordance with the transparency requirements laid out in the annual budget laws. Based on this information, public *fideicomisos* have executed on average close to 18 percent of the total capital budget and 7 percent of total current expenditures in 2009-2010.

**5.33. The *fideicomisos* classified as managing funds mostly channel subsidies to beneficiaries.** The four *fideicomisos* in this category represented 94 percent of total non-reimbursable expenditures managed and executed by the *fideicomisos* in 2004-2011.<sup>171</sup> Out of those four, the *fideicomiso* *Mi Familia Progres*a, which finances the government's conditional cash transfer program, represented more than 50 percent of these expenditures, followed by the *fideicomisos* managing subsidies for housing, agriculture and indigenous groups. *Mi Familia Progres*a was formally created in April 2009 to assist extremely poor households with small children while requiring them to comply with co-responsibilities with regards to health care, nutrition and education. Since then, this *fideicomiso* has received cumulative funds from the budget of around US\$400 million. The *fideicomiso* for mortgage subsidies was created in 1996 to support a reduction in the housing deficit, especially for the poorest people. The *fideicomiso* for modernizing the agriculture sector was created in 1994 to provide technical assistance and funds to farmers in order to enhance the sector's productivity. Finally, the *fideicomiso* for indigenous people was created in July 1994 to support and strengthen the human development of the Mayan indigenous people.

**5.34. The Public Investment *fideicomisos* are aimed at complementing the public investment program by managing the project cycle of infrastructure projects.** Six public investment *fideicomisos* represented 99 percent of total non-reimbursable expenditures of investment *fideicomisos* between 2004 and 2011. Within those six, the most relevant are the Roads Fund (COVIAL) and the Peace Fund. The COVIAL represented 60 percent of all expenditures managed by non-reimbursable public investment *fideicomisos*. It was created through a Government Accord in Octo-

ber 1998 to finance the construction and maintenance of the country's highway network. The Peace Fund was established in 1991 to promote and consolidate the peace process after the end of the civil conflict. Resources dedicated to this type of *fideicomiso* increased by 128 percent between 2004 and 2011, and represent 59 percent of total *fideicomiso* resources.

**5.35. The credit and credit guarantee *fideicomisos* are aimed at improving access to credit and at directing credit to some sectors and small enterprises.** Financing provided by these *fideicomisos* is largely reimbursable. In addition to supporting the banking sector's solvency, this kind of *fideicomisos* assists micro and small enterprises as well as small agricultural producers (including coffee). Resources dedicated to this type of *fideicomiso* have been decreasing, and represent 1 percent of total *fideicomiso* resources (Table 5.2).

**5.36. Arrangements with non-governmental organizations are another commonly used vehicle to execute public resources.** Public contracting of NGOs first originated in the health sector. With little public capacity to provide health services in culturally and linguistically diverse rural areas, a large share of the interventions of the Integrated System for Health Attention is carried out by NGOs. More recently, however, contracting of NGOs, often through political links, for public works has gained in prominence. In part due to this practice, NGOs have come to claim an increasing share of the public budget, representing between 1 percent and 23 percent of sector ministries' budget execution in 2009 and 2010. This is equivalent to 4 and 3 percent of the total budget, respectively (Table 5.3).

**5.37. Like *fideicomisos*, NGOs are not subject to regular budgetary oversight and controls.** To address transparency concerns about the execution of funds through NGOs, MOF introduced in 2008 norms which condition advances to NGOs on a prior detailed accounting of executed expenditures. In 2010, slightly less than 30 percent of the amount transferred to NGOs was accounted for through this practice; the remainder was channeled to NGOs through congress-

171. The non reimbursable investments and expenditures, except the payments to the *fiduciario*, are expenditures to finance projects and programs such as roads, bridges, schools, and subsidies and others transfers to beneficiaries. The information is extracted from the *fideicomiso*'s financial statements by the MOF.

**TABLE 5.2: EXPENDITURES OF CENTRAL GOVERNMENT FIDEICOMISOS (2004-2011) (Q. MILLIONS)**

Tipo de fondo	2004	2005	2006	2007	2008	2009	2010	2011	Total	% of total
Administrative funds	119	271	420	487	137	978	1,550	1,144	5,105	19%
<i>Mi Familia Progres</i>	0	0	0	0	0	786	1,108	886	2,780	10%
Fondo Guatemalteco de Vivienda	83	237	370	440	120	160	417	227	2,054	8%
Investment funds	881	1,561	1,685	1,249	2,762	2,895	3,138	2,006	16,176	59%
Fondo Vial (COVIAL)	640	689	873	879	1,924	1,646	1,678	1,416	9,744	36%
FONAPAZ	240	323	569	350	723	847	1,229	409	4,691	17%
Credit guarantees	61	23	6	6	108	0	0	0	204	1%
Other trust funds	941	1,005	1,134	1,010	724	227	391	278	5,710	21%
<b>Total</b>	<b>2,002</b>	<b>2,860</b>	<b>3,243</b>	<b>2,753</b>	<b>3,731</b>	<b>4,100</b>	<b>5,079</b>	<b>3,428</b>	<b>27,194</b>	<b>100%</b>

Source: Staff calculations based on MOF data.

**TABLE 5.3: EXPENDITURES EXECUTED BY NGOs AND OTHER AGREEMENTS AS PERCENTAGE OF THE SECTOR'S TOTAL EXECUTED BUDGET**

	2009	2010
Total NGOs/Total Ministry of Health	14%	12%
Total NGOs/Total Ministry of Education	9%	4%
Total NGOs/Total Infrastructure	2%	5%
Total NGOs/Treasury Obligations	2%	1%
Total NGOs/Total Ministry of Culture and Sports	23%	18%
<b>Total NGOs/Total Budget</b>	<b>4%</b>	<b>3%</b>

Source: Staff calculations based on MOF data.

sionally-stipulated “direct contributions” to which the MOF norms may not be applied – a practice to which legislators started resorting in response to the new norms.<sup>172</sup> While the provision of health services through NGOs is not put into question, a call for the prohibition of public works execution through NGOs has been made by various initiatives.<sup>173</sup> Incentive-alignment for such reforms, however, is challenging: the authority to prohibit congressionally-stipulated transfers to NGOs lies with congressional members.<sup>174</sup>

### *Quality of expenditures carried out through alternate vehicles*

**5.38. Although the use of alternate vehicles can help deliver services, goods and works in a timely manner, there is an increased accountability risk.**

This is because the processes related to the allocation and execution of these resources are different from those that are applied by public entities using the SICOIN. Over time, the widespread use of these ve-

172. Barrientos (2011).

173. See CoST Guatemala (2011).

174. In this regard, the 2012 budget contains an article prohibiting the contracting of NGOs for public works. As it is unclear whether its formulation is sufficiently unambiguous to close legal loopholes, however, it remains to be seen whether it is effective in thwarting the continued contracting of NGOs (Plaza Pública 2011b).

hicles went beyond the specific objectives for which they were originally designed, such as multi-sectoral reconstruction programs following natural disasters, or the provision of public services in remote and post-conflict areas. Once the budgetary transfers have taken place, the *fideicomisos* and NGOs operate with significant autonomy but without adequate controls. From the budget execution perspective, there is no registration of individual transactions to feed into the accounting system (SICOIN), the management system (SIGES) or other information systems that would facilitate the CGC's audit work. For instance, for the SICOIN, the quality of accounting information is poorer because expenditures have to be regularized manually. Also, cash resources managed by these vehicles are not within the Single Treasury Account (STA). Is the use of these vehicles the best option to execute the budget? Are the investment projects and services provided fully consistent with the national priorities and public policies? These questions cannot be answered adequately because of the lack of transparency and accountability.

**5.39. No specific legislation to regulate the operations of *fideicomisos* is in place; as a result, they have managed significant amounts of resources without appropriate controls.** This leads to lack of transparency in terms of procurement, quality of works, and impact assessment. In addition, activities financed by *fideicomisos* may not be consistent with long-term development objectives because they take place outside the Public Investment Program (PIP). Since 2010, however, these activities have required the approval of the National Public Investment System (*Sistema Nacional de Inversión Pública*, SNIP) and need to be included in the budget. On the other hand, the Ministry of Finance has recently been removed from the COVIAL Technical Committee, which decides on projects and the allocation of funds, undermining external control over its operations. Emergency situations are often used as justification for the extended use of emergency procedures, including the use of streamlined procurement processes and extraordinary ex-

tensions of contracts (without the guaranteed availability of resources).

**5.40. In the case of NGOs, the main issues affecting the quality of expenditures are the following:** (i) NGO employees are not public employees and are therefore not covered by the sanctions regime under the public procurement law, which is tougher than the CGC sanctions; (ii) partial registry in the SICOIN system of the agreements with NGOs; (iii) lack of information of idle cash balances at bank accounts, which are not transferred to the STA at the end of the year; (iv) partial registry of projects in the SNIP registry; (v) lack of monitoring by the SIGES management system; (vi) lack of transparency of *fideicomisos* to sub-contract NGOs to carry out projects and programs; and (vii) multi-year agreements inconsistent with annual budget planning.

#### *Accountability mechanisms of the alternative vehicles*

**5.41. According to public regulations, the CGC has the responsibility to audit the above-mentioned alternative vehicles.** The CGC's specialized units have audited the *fideicomisos* and NGOs on an annual basis since 2008. In general, the audit objective is to establish whether they have used public funds in accordance with international accounting standards.

**5.42. For most *fideicomisos*, the auditor's opinion has been unqualified.**<sup>175</sup> However, it seems that there is little consistency in the auditor's opinion because it differs substantially from one year to another. For instance, the COVIAL got an unqualified opinion in 2008 but in the next year it got a disclaimer opinion (i.e. no opinion at all). The following Table 5.4 presents the CGC audits for a sample of *fideicomisos* for 2007-2010.

**5.43. In particular, the CGC has audited COVIAL and *Mi Familia Progres*a annually since 2008.** In the case of the COVIAL audits of 2008-2010 resulted in a

175. The PIP is the list of public investments that were assessed by sectors following the SNIP and are ready to be incorporated to the budget. The SNIP comprises systems and regulation that enable sectors to complete the project cycle since the project profile up the completion assessment. The SNIP provide a unique number to identify projects that will be incorporated to the budget once the technical specifications have been fulfilled such as the estimation of yields and the present net value. The SNIP regulations should ensure that the proposed projects are aligned to national priorities and strategic goals.

176. This means that the financial statements of the entity adequately reflect the financial situation in accordance to international standards.

TABLE 5.4: FIDEICOMISO AUDITS PERFORMED BY THE CGC (2007-2010)

Auditor's Opinion	2007		2008		2009		2010	
	No.	%	No.	%	No.	%	No.	%
Unqualified 1/	16	73%	21	78%	22	71%	10	56%
Qualified 2/	5	23%	2	7%	4	13%	0	0%
Disclaimer of opinion 3/	1	5%	4	15%	5	16%	8	44%
<b>Total</b>	<b>22</b>	<b>100%</b>	<b>27</b>	<b>100%</b>	<b>31</b>	<b>100%</b>	<b>18</b>	<b>100%</b>
<b>Total Fideicomisos</b>	<b>57</b>		<b>82</b>		<b>100</b>		<b>80</b>	
<b>% Audited</b>	<b>39%</b>		<b>33%</b>		<b>31%</b>		<b>23%</b>	

1/ The entity followed all accounting rules appropriately and that the financial reports are an accurate representation of the company's financial condition. 2/ The entity followed all accounting rules appropriately with some minor exceptions and that the financial reports are an accurate representation of the company's financial condition. 3/ An auditor's statement disclaiming any opinion regarding the company's financial condition due to an inability to gather certain relevant facts. Source: Staff calculations based on MOF data.

disclaimer opinion because the accrual accounts, payments and accounting did not match with the physical progress of works. The *fideicomiso* for the MiFaPro Program could not reconcile its accounts with information on the transfers made to final beneficiaries, resulting in a disclaimer of opinion by the CGC.

5.44. **The CGC carried out 36 special audits triggered by particular outcomes found in the indicated annual audits.** For instance, in 2010, the CGC audited the list of beneficiaries of MiFaPro. The audit verified not only the existence of the beneficiaries but also whether they matched with the beneficiaries' profile. The outcomes of this special audit were not conclusive because the sample was small. In the case of COVIAL, the special audits found that it has been creating floating debt (a commitment without guaranteed availability of resources) since 2002. Although the CGC establishes sanctions for persons who manage *fideicomisos* incorrectly, in general those sanctions are weak, since the CGC law caps fines at Q.80,000 (US\$10,000 approximately), and those fines are usually appealed and reduced by up to 90 percent. Therefore, in practice, no effective sanctions occur.

5.45. **In the case of the NGOs, the CGC confronts a number of limitations.** First, the number of agree-

ments with NGOs is not clear: estimates suggest that around 5,000 agreements are currently under operation. The CGC has only focused on 300, of which 45 are regularly audited every year. Second, there is not an official NGO registry and thus the number, features, location, and intrinsic risks are not evaluated by the CGC to plan audits. Third, complaints have been the main source for choosing particular agreements to audit rather than an evaluation based on risk criteria and cost analysis. Fourth, NGOs often argue that their employees are not civil servants and are therefore not bound by the public sector legal framework, including the public procurement law. Because of that, the CGC cannot apply the sanctions regime established by that law and instead applies the CGC law, which contains less strict sanctions.

#### Payment Arrears ("Floating Debt")

5.46. **The accumulation of payment arrears ("floating debt") is a long-standing problem.**<sup>177</sup> Floating debt emerges when commitments or accruals are generated without the corresponding budget credit.<sup>178</sup> However, this definition presents some limitations in the case of multi-annual projects, where the implementation timeframe in general exceeds more than one budget year. The IMF defines payment arrears as

177. The Government has contracted an international audit firm to conduct a comprehensive audit of floating debt; however, the audit could only be completed for a portion of Central Government ministries.

178. This definition is consistent with the General Budget Law (Article 26), which establishes that no commitment and accrual can be generated without the corresponding budget credit.

the due payment obligations that the Government did not pay in a reasonable period of time (say 60 days) after the invoice was accepted and recorded.<sup>179</sup> While a complete inventory of floating debt is not available, the problem is particularly acute in entities managing multi-year infrastructure projects, including COVIAL.

**5.47. The situation in Guatemala is complicated because parts of the budget can be executed outside of the PFM systems, and because the MTEF and STA are not fully consolidated.** Thus, control over the use of resources is limited. During budget execution sectors register commitments and accruals when the payment order is processed. However, if there are not enough available funds, sectors may not register the invoice in the SICOIN system, resulting in an arrear not registered in the SICOIN, which becomes floating debt. COVIAL generates floating debt in a different way, by the repeated extension of contracts associated with infrastructure projects without the medium-term budget credits. The system does not alert public officials of the creation of an illegal accrual, and the credibility of the PFM system is seriously undermined.

**5.48. Despite the uncertain legal basis of the claims that are generated, they represent an important liability for the government and contribute to the low levels of trust in government.** According to an ongoing CGC audit, the MOF has authorized payments to past invoices, even when they were not registered in the SICOIN, in order to gradually eliminate these liabilities. This has further contributed to the lack of credibility of the government's efforts to reduce floating debt.

**5.49. MOF has recently taken measures to deter the creation of floating debt, but with limited success.** The introduction of the Budget Availability Certificate (BAC) in 2010 was designed to control the generation of floating debt. The guidelines state that commitments (i.e. contracts) without BACs will not be compulsory. Therefore, a contractor should request the corresponding BAC before signing a contract in order to ensure that it will be paid. With the BAC, the MOF intends not to recognize any arrears that were gener-

ated without budget credit. In addition, for 2011, the MOF has requested that SNIP certify projects before incorporating them into the budget. The BAC and the SNIP requirements are sound measures to discourage the creation of floating debt. However, it is too early to assess whether contracts are still signed without a BAC and whether these get paid. In any case, it seems necessary to complement such administrative measures with effective sanctions and penalties in order to significantly change behavior.

### C. PUBLIC PROCUREMENT

**5.50. Whilst in recent years there have been improvements in the Guatemalan public procurement system, there are nevertheless problems related to efficiency, risks of corruption and low impact on national development.** One of the major problems that has been identified in various analytical studies<sup>180</sup> is the lack of coordination and fragmentation. This occurs in spite of the fact that a single procurement law exists; however, each entity applies the rules differently, contracts are not standard, and a high level of subjectivity was applied. This fragmentation of regulation, subjectivity and non-standard practices carried out by the different government entities results in a high level of inefficiency in budget execution and coordination, limits participation from suppliers, makes oversight by civil society and revelatory entities extremely difficult and increases the risks of corruption.<sup>181</sup>

**5.51. Perhaps one of the most telling results of this fragmentation is that in 2009, 84 percent of the value of public procurement activities was contracted through exception mechanisms for which there is no uniform approach to their application.** It is interesting to note that the public procurement law in Guatemala does not have competition as an explicit objective, and exception mechanisms are by definition not competitive. This omission in the law is further exacerbated by the lack of guidelines and control mechanisms to avoid discretion in procurement activities through requirements for participation and evaluation criteria. There are also several weaknesses in the capacity of the procurement directorate to ensure that there is ac-

179. IMF (2010).

180. These include a country procurement assessment report carried out by the World Bank in 2005 and the OECD procurement indicators applied by the government in 2010 with the support of the World Bank and the Inter-American Development Bank.

181. The figures in this section and in the annex describe the procurement and contracting practices as of August 31, 2011.

tual coordination between procurement and budget, contract management, decision-making and associated accountability, further development of the e-procurement platform, professionalization of public officials, as well as institutional and civil society oversight.

Based on the OECD procurement indicators, the following issues were identified:

### *Legal, regulatory and institutional framework*

**5.52. There are several weaknesses in the legal and regulatory framework given that the regulations include provisions that were not covered by the law.**

At the same time, government entities established their own processes and requirements in their internal regulations, which in turn are contemplated neither by the law nor the general regulations. These practices extend to the selection process as well as the contract management phase. The lack of guidelines determining the scope and minimum content of bidding documents, as well as of standard contract clauses, results in many cases in sufficient information, which increases the risks of ambiguity, error and corruption.

**5.53. There is a significant lack of coordination between public procurement activities and budget planning and execution.** Whilst the government has undertaken commendable efforts to strengthen this link by requiring that entities obtain a certificate of availability of funds prior to undertaking any procurement activities, many entities fail to comply with this requirement. By signing contracts without the proper prior budget authorization these entities assume debts for which the state is liable. This practice is particularly prevalent in MICIVI where contract commitments far exceed the available budget. This not only has a negative impact on budget management, but also delays payments to suppliers.

**5.54. One of the most challenging problems that affect procurement planning is the length of time of procurement processes.** The 2010 OECD indicators identified that on average procurement processes ranged between 150 to 250 days due to problems of

the technical specifications, lack of available budget as well as appeals by the potential suppliers.

**5.55. One of the most significant efforts by the government to address some of these weaknesses has been the development of the e-procurement platform Guatecompras.** Guatemala was one of the first countries in Central America to introduce an e-procurement platform, Guatecompras, and is one of the few countries that has linked the platform with its financial management system. The system requires that all steps in the procurement process be followed before any payments can be undertaken. Guatemala has also developed a contract management system that captures the planned, awarded in final amounts of each individual contract.<sup>182</sup>

### *Market*

**5.56. Like other countries in the region, Guatemala lacks a professional stream of public procurement officials.** The lack of standard profiles for procurement officials results in a great disparity in the capacity from agency to agency; this compounded by the high level rotation of personnel significantly increases the risks associated with procurement. Public sector regulations in Guatemala do not identify specific responsibilities associated with the procurement process; they also lack sanctions and any management standards. The delegation of responsibility is agency specific, but accountability remains centralized, thus weakening the process of managing by results.

**5.57. The OECD indicators also identified significant barriers for private sector participation in the public procurement system.** These include, amongst others, the lack of trust in the transparency of the procurement processes, the impartiality of awarded contracts, the lack of a government policy to increase competition, the fragmentation of the public procurement system, the cost and restrictions of obtaining credit, the lack of certainty on timeframes for payments, the fear of changes in contract conditions and timeframes and the weakness of government contract supervision.

<sup>182</sup> These systems have generated a wealth of information on the behavior of the public procurement system and in particular the lack of compliance by government entities with government reporting requirements. However, the procurement directorate does not have a team dedicated to analyzing this information.

5.58. **In 2009, there was a significant increase in the procurement of goods and services.** The central government expenditure increased by around 6 percent between 2004 and 2009. In 2009 the procurement of common use goods represented around 27.8 percent of the total procurement of goods and services compared with 15.1 percent in 2004. In 2009, procurement expenditure on goods, works and services was estimated in Q.17 billion, with the central government procuring directly around 65 percent, and 35 percent through transfers to decentralized institutions. In 2010, the figure was Q.12 billion, and it reached Q.11 billion by August 31, 2011.

### Integrity and transparency

5.59. **As mentioned previously, the development of Guatecompras has significantly increased the transparency of public procurement in Guatemala.** Nevertheless, practices employed by agencies to either bypass or avoid the existing system controls significantly weaken these efforts. Equally, the failure by the procurement directorate to utilize the existing data generated by the various governance systems further undermines the transparency of the system.

5.60. **The Guatemalan public procurement system does not have an administrative body to address complaints and or investigate infringements in the public procurement process.** This function has to be carried out through the court system, and as such is subject the limitations of the system to address many

of the issues resulting from complaints and irregularities in the procurement system. There is a very low level of convictions in relation to the number of processes opened.

5.61. **The role of civil society in overseeing public procurement in Guatemala is limited, and there are few organizations dedicated to monitoring procurement and a national level.** Nevertheless, there is a growing interest at the local level in social audits related to procurement activities. The various professional associations do not have strategies, nor do they regulate the ethical behavior of their members, as a rule they also don't participate in anticorruption programs targeted at public procurement activities. The media is the only entity that plays a sustained and constant role in monitoring public procurement activities. This results in an overall weak procurement system as demonstrated in Figure 5.5.

5.62. **These institutional weaknesses also apply to other elements of the public administration linked with the public procurement system** (Figure 5.6). It is recognized that in order for a country to have a well-functioning public procurement system, all the interrelated components of the public administration must also perform efficiently and effectively. It would thus stand to reason that any reforms to the public procurement system must also be accompanied by reforms and strengthening of other related government functions.

FIGURE 5.4: PERFORMANCE OF THE GUATEMALAN PUBLIC PROCUREMENT SYSTEM

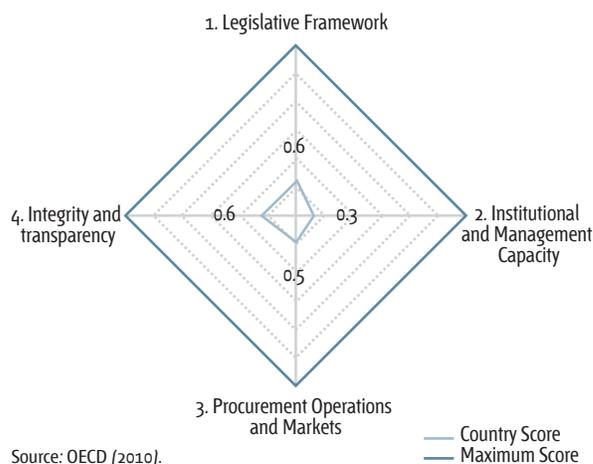


FIGURE 5.5: PERFORMANCE OF THE GUATEMALAN PUBLIC PROCUREMENT SYSTEM

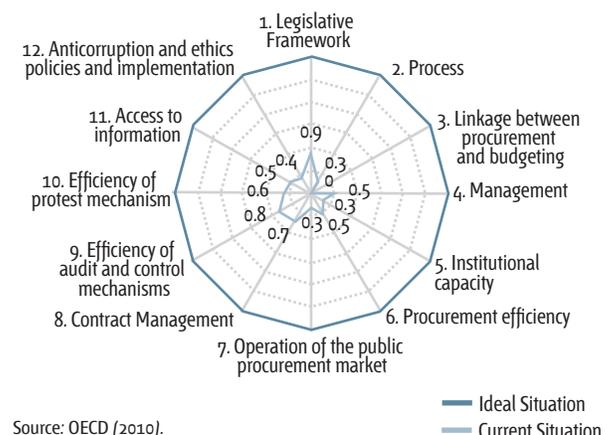


TABLE 5.5: PROCUREMENT BY METHOD (% OF TOTAL)

Year	Direct	Direct (resulting from NV)	Quotation	Tendering	Open contract	Exception	Not subject to Procurement Law	Unclassified
2009	1.89	0.27	11.86	8.74	6.67	25.31	8.57	36.69
2010	5.76	0.46	17.01	20.04	0.75	40.69	15.29	0.00
2011	4.80	0.35	11.98	13.33	0.04	48.96	20.54	0.00

Source: Guatecompras.

## Performance

5.63. **As noted previously, there is a high level of fragmentation and use of non-competitive procurement practices.** Both have increased over the last few years, and rather than moving towards international best practices of consolidation and increased competition, Guatemala has moved in the opposite direction.

5.64. **There has been a growing tendency to either procure by exception or limited competitive method rather than through open tendering processes.** The use of exceptions is particularly prevalent in infrastructure, whilst direct procurement tends to be associated with goods and services. Likewise, there is a significant reduction in the use of open contracts; this reduction is accompanied by an increase in requested exceptions for the procurement of items outside the open contract. In 2009, when the use of the open contracts was at its peak and accounted for 6.6 percent of government procurement, there were 240 exceptions. In 2010, the value of the open contract was reduced to 0.75 percent of government procurement but there were 618 exceptions. As of August 31, 2011, the value of the open contract as a percentage of total spend had been reduced to 0.04 percent and there were already 631 exceptions. This trend indicates that not only is the government missing out in terms of savings, efficiency and governance through the advantages of aggregating procurement, but also that the subsequent increase in direct procurement is reducing competition and transparency.

### Case study: procurement of pharmaceuticals

5.65. **In 2010, at the request of the Ministry of Finance, a World Bank team carried out a technical**

**mission to review and explore what were the principal opportunities and challenges of the current procurement mechanism of open contracts utilized by the government to procure pharmaceuticals.**

5.66. **In principle, the government's use of open contracts is similar to the use of framework agreements by other jurisdictions that use such mechanisms to procure goods, works, services and pharmaceuticals.** Nevertheless, the use of open contracts in Guatemala is hampered by a regulatory framework that limits the potential of the tool by prohibiting the use of many of its most beneficial characteristics. The use of framework agreements to procure pharmaceuticals generally is undertaken through the consolidation of demand, skill sets, and standards. That is to say, a centralized unit highly specialized in the development and management of framework agreements brings together all of the key stakeholders to determine the specifications and protocols, before going out to the market. In this context, framework agreements can be a very efficient and effective tool. However, their use requires a very solid and technically capable platform. Whilst framework agreements would not address all the problems and challenges encountered in the procurement of pharmaceuticals by the public sector, they could nevertheless provide many relevant opportunities to deliver more efficient and effective outcomes.

5.67. **The use of open contracts was first introduced in Guatemala over 10 years ago.** Prior to their introduction for the procurement of pharmaceuticals, the public sector used traditional approaches such as tendering, quotations, but also with increasing frequency direct procurement. As a result, there was a high level of variation in prices of pharmaceuticals that led to a

necessity to identify mechanisms that would increase the efficiency of the procurement. Prior to 2009, there were three open contracts with annual renewals of up to 5 years.

**5.68. In 2009, the Guatemalan government carried out a new selection process for an open contract to procure approximately 861 pharmaceuticals.** Nevertheless, the government only awarded approximately 50 percent of the required pharmaceuticals, due to a variety of challenges with the other 50 percent. The challenges ranged from protests and appeals from suppliers as well as disagreements between the evaluation committees and the Ministry of Finance. It is also important to note that the government had not defined the list of essential medicines for each level of attention, neither for the Institute of Social Security nor for its own hospitals, leading to a higher probability of duplication in the requirements but nevertheless having different technical specifications.

**5.69. The review identified several deficiencies and opportunities to improve the procurement of pharmaceuticals in Guatemala, such as:**

- Limited coordination between institutions as well as lack of strategic information required to plan demand and supply chain logistics.
- Limited capacity at entity level and executing unity level to understand the specific use of particular medicines.
- Lack of standard protocols for diagnosis and treatment, which in turn impacts on specifications and inventory control.
- Lack of inventory control, leading to both oversupply and undersupply.
- Lack of clearer guidelines for the planning, preparation, awarded and management of open contracts.
- Lack of operational guidelines to capture and systematise lessons learned so that they can be fed into subsequent procurement processes.
- Lack of guidelines for the extension of existing open contracts, for example between 2005 and 2010, the extensions were carried out in an ad hoc manner without predefined mechanisms. Equally, there is no mechanism to update prices falling extensions of contracts.

These and other deficiencies have resulted in a lack of clarity on the use of open contracts, their rules and exceptions, which, in turn, reduces competition transparency and value for money for the government.

### *Case study: infrastructure*

**5.70. In general, the procurement of infrastructure tends to be outside the scope of governmental procurement reviews.** This often occurs due to the high level of transactions associated with goods and services: procurement of these activities generally accounts for 80 percent of all procurement transactions. Nevertheless, infrastructure (construction, maintenance, and associated services) generally accounts for 80 percent of value. Procurement of infrastructure also tends to be the domain of a few specialized government entities, as opposed to goods and services which are common throughout all ministries.

**5.71. There are 12 government agencies involved in the procurement of infrastructure in Guatemala, but the Ministry of Communications, Infrastructure and Housing (MICIVI) accounts for 80 percent of total government expenditure in the sector.** As a result of this, this section provides only a short overview of general infrastructure procurement, before focusing more specifically on procurement in MICIVI.

**5.72. Non-competitive procurement methods account for a large share of procurement, especially of infrastructure.** Three main procurement methods can be identified as the most commonly used across government agencies: quotations, public bidding and by exception. Figure 5.7 shows that there is a wide variance in the use of the identified methods by the different ministries. This ranges from the exclusive procurement by exception by the Ministry of Foreign Affairs to the exclusive use of quotation by the Ministry of Economy. On the other hand, the Ministry of Education tends to divide its procurement between quotation and exception, with only a small percentage being undertaken through public bidding processes. MICIVI, on the other hand, contracts approximately two-thirds of its infrastructure through public bidding and the remainder through exceptions and quotations. This dataset indicates that, whilst

some entities utilize public bidding to procure their required infrastructure a very large amount of the overall spending is nevertheless carried out through non-competitive methods.

**5.73. An analysis of the methods used by MICIVI to procure works, maintenance and supervision, shows the following:**

- From a total of Q.34 billion in contracts awarded by **tender**,
  - o Works represent 57.3 percent;
  - o Maintenance represents 3.2 percent; and
  - o Supervision represents 39.5 percent.
- From a total of Q.599 million in contracts awarded by **quotation**,
  - o Works represent 93.7 percent;
  - o Maintenance represents 0.2 percent; and
  - o Supervision represents 6.1 percent.
- From a total of Q.8 billion in contracts awarded by **exception**,
  - o Works represent 90.5 percent;
  - o Maintenance represents 0.9 percent; and
  - o Supervision represents 8.6 percent.

Tendering is thus used both for works and supervision, but quotations and exceptions are almost exclusively used to procure works.

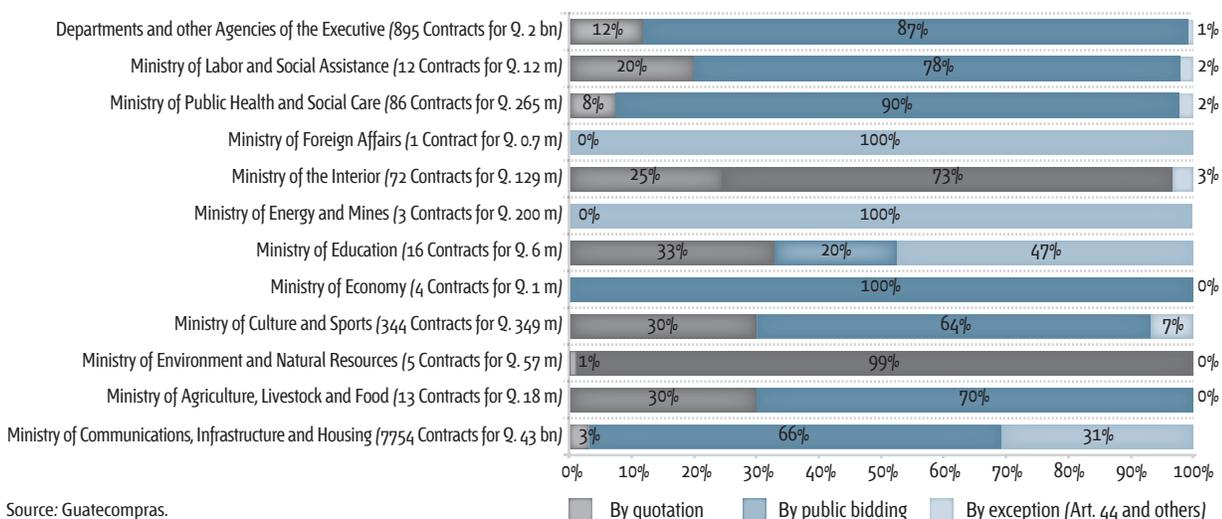
**5.74. A key determinant for the level of interest by potential bidders to participate in future procurement processes, as well as for their pricing structure, is the expectation to be paid on time.**

There is a wide range in the payment performance of various ministries, with the majority having large contract amounts outstanding. It would therefore be unrealistic to expect that the delays in payment resulting from these outstanding commitments do not have a significant impact on the number of participants and the prices offered to the government. This situation may actually be contributing to the high level of exceptions and contract extensions, since firms who are currently engaged in government projects may be willing to undertake further work in the hope of recouping payments for previously performed work.

**5.75. Not surprisingly, the largest outstanding amounts to be paid are related to road construction and maintenance.** This applies both in terms of the number of contracts and the outstanding amount.

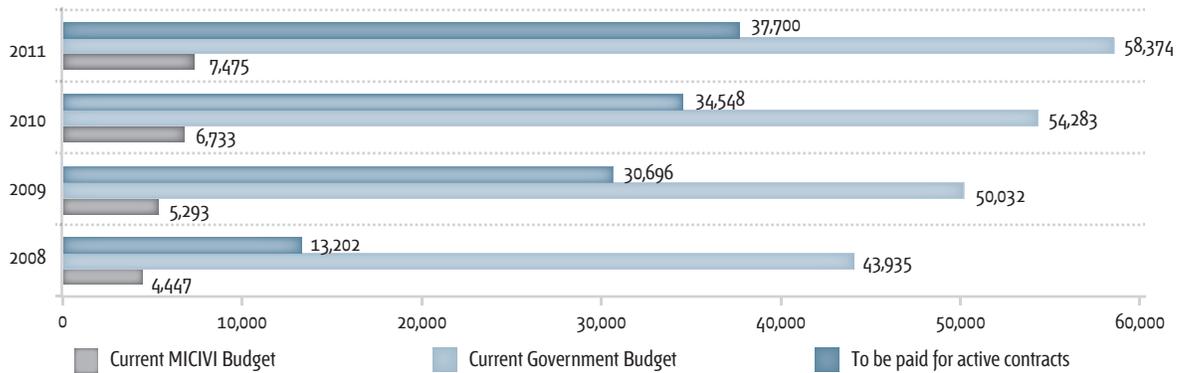
**5.76. The large amount of outstanding commitments indicates an apparent disconnect between budget planning and budget execution.** Figure 5.8 compares MICIVI's budget from 2008 through 2011 in relation to the overall government budget and outstanding commitments. In 2008, MICIVI's outstanding

**FIGURE 5.6: INSTITUTIONAL PROCUREMENT PRACTICES – AMOUNTS CONTRACTED BY METHOD (2000-AUG 2011)**



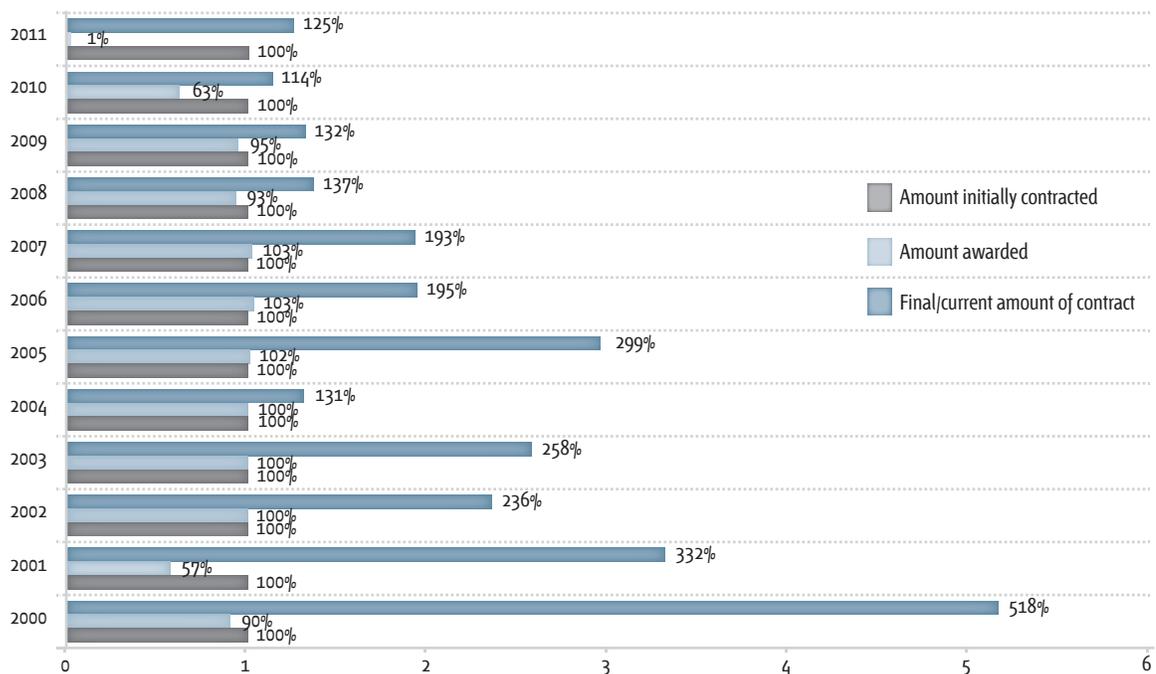
Source: Guatecompras.

FIGURE 5.7: BUDGETARY PERFORMANCE OF MICIVI PROCUREMENT (Q. MILLION)



\*2011 reflects data through August 31, 2011. Source: Guatecompras.

FIGURE 5.8: MICIVI CONTRACTING PRACTICES - CONTRACTS AMENDMENTS



\*Initial contract amount = 100%. 2011 reflects data through August 31, 2011. Source: Guatecompras.

commitments were three times its annual operational budget, and 30% percent of the government's annual operating budget. In 2011 that figure increased to 5 times its annual operational budget and now represents 54 percent of the government's annual budget.

**5.77. Infrastructure projects are often associated with cost overruns resulting from under-budgeting, poor planning and inefficient contract management.** As a rule, the larger the project, the greater the im-

pact that these shortfalls can have. Figure 5.9 identifies the amounts of contract variations by dividing the contracts into six thresholds. The top three thresholds indicate the largest variations ranging from 199 to 358 percent. Whilst it would be expected that there would be some variation between the amount contracted initially and the final payment, the magnitude of the observed variations indicate significant deficiencies, ranging from planning and execution to contract management.

## D. CONCLUSIONS AND RECOMMENDATIONS

### Budget Process and Public Financial Management

5.78. **Based on the 2009 PEFA, the Government prioritized several key issues to be addressed in order to improve PFM, as follows:**

- *Floating debt* - because it was not registered and it represents a potential burden for the public finances due its magnitude;
- *Fideicomisos and other alternate vehicles* - they register only transfers, without detailed transactions in the SICOIN system.
- **Budget Formulation** - there was no link between planning and budget, and there was no results-oriented budgeting;
- *Monitoring and fiscal risk* - need to consolidate all public sectors accounts to monitor fiscal risks;
- *Accounting* - to address substantial weaknesses in this area;
- *Budget reporting* - to improve the quality of information on budget execution;
- *Municipal transfers* - municipalities should be able to anticipate their transfers, to plan and prepare their budgets appropriately;
- *Human resources* - to update the data base of the civil servants;
- *Audits (internal and external)* - should focus not only on auditing transactions, but rather on outcomes and results; and
- *Predictability of donor funds* - enhance coordination between the MOF and donors to plan disbursements of external funds in advance.

#### Floating Debt

5.79. **Although the Government has implemented a set of measures to deter the creation of floating debt, the practice continues to affect PFM performance and credibility.** In 2010, the IMF produced a report recommending steps to deter the practice. Also, with the assistance of the European Commission, an audit on the floating debt is undergoing. However, notwithstanding this analytical work and the administrative measures taken to date, floating debt is still being generated.

5.80. **Preliminary results of an audit by CGC show that the floating debt might be equivalent to 3 percent of GDP (US\$1.2 billion).** In 2010, CGC identified floating debt created by the COVIAL *fideicomiso*, by contract extensions without budget credit authorization by its Technical Committee. COVIAL argued that it was done to address emergency situations caused by natural disasters, and that they were regulated by the Commercial Code. In emergency situations, two types of exceptions are usually granted: (i) the release of funds without following PFM regulations and in particular the procurement law; and (ii) the transfer of funds for execution by a *fideicomiso*. Both of these exemptions, however, could undermine transparency and increase the risk of improper use of public resources.

5.81. **In order to deter the generation of floating debt, it is essential to enforce the law and sanction public officials who do not comply with it.** The existing CGC Law must be amended to include sanctions that are substantial and credible. That would also make public servants, NGOs' officials, and managers of *fideicomisos* more accountable. Also, due to the fact that Guatemala has been confronting natural disasters regularly, it is critical to better regulate the use of public funds and their accountability in those situations.

#### Fideicomisos

5.82. **Fideicomisos have enabled public entities to deliver services and infrastructure in a timely manner.** However, because of political interference (e.g., COVIAL and *Mi Familia Progresista*), their use should be restricted only to special cases. As mentioned above, the CGC has been performing regular audits to the relevant *fideicomisos*, and most of them have been operating in accordance to international standards. Nevertheless, this is no guaranty of the correct use of resources. In particular, CGC audits outcomes have often been positive one year and negative the next.

5.83. **The lack of a public fideicomisos law has severely limited CGC's power to better oversee and audit the fideicomisos' performance.** Currently, CGC depends on the willingness of the *fiduciario* to hand over financial and operational information to execute the audits. Enforcement of credible sanctions

could help in that respect. In addition, a new law for public *fideicomisos* would deprive those, such as the COVIAL, which have argued that they are subject to the regulation of the Commercial Code, i.e., that they can act as private entities even though they receive and spend public funds.

**5.84. The Government should continue its efforts to build consensus around a public *fideicomisos* Law.**

Most of the regulations that might be included in the draft law are stated in the 2011 and 2012 budget laws. However, there is no guarantee that Congress will include such regulations in future years. A new Law would provide a permanent legal basis governing the management of *fideicomisos*.

### **Budget Formulation**

**5.85. Currently, annual budgets are formulated based on past allocations.** Traditional programs are not reassessed and revised, and an inertial budget execution has become common practice. Improved budget preparation would reduce the need to modify allocations during the year and also enhance the credibility of the PFM systems. In addition, more realistic income projections would facilitate budget and cash management.

**5.86. The MOF, with support from the EC, has launched an initiative to improve the budget formulation by revising the program structure of three pilot ministries: Health, Education, and Interior.** The progress achieved in the Ministry of Health shows that using a results oriented approach is possible and useful.<sup>183</sup> This approach links policy objectives with allocation of available resources, and provides a medium-term horizon for achieving strategic goals. Further, better estimations of unit costs would help monitor and evaluate the quality of expenditures by program and assess whether intended results have been achieved. The program revision also includes investment projects to improve infrastructure. Thus, whether a ministry executes its capital budget by itself or through a *fideicomiso* or NGO, this will make the public investment program more consistent with the sector's desired results and strategic goals.

**5.87. Based on the advantages of the pilot program, it is highly recommendable that the MOF drafts a new PFM legislation to improve the PFM systems performance, drawing from the lessons learned from the pilots' experience.** An improved MTEF will support the revision of programs as well as all budget cycle processes.

### **Public Procurement**

**5.88. A key characteristic of a modern public procurement system is a strong accountability framework.** This means that managers are held accountable for their decisions and the resulting outcomes. In order for Guatemala to have a procurement system that delivers the government's investment program as well as the goods and services demanded by society, substantial reform is required that shifts the objective of the procurement system from compliance with processes to compliance with outcomes. It is important to note that shifting the focus to outcomes does not imply that compliance with procedures is not important; rather, it means that both outcomes and procedures will become measurable results.

**5.89. The analysis presented in this section clearly indicates the need to improve planning, consolidation, competition and contract management as key components in order to enhance the efficiency and transparency of Guatemala's public procurement system.** Whilst Guatemala was a pioneer in the introduction of framework agreements in the Latin American region, it nevertheless failed to capitalize on the potential benefits generated by the use of this tool. Design flaws in the planning and operational model contributed to this. The decline of framework agreements is reflected in the decreasing use of this tool by public sector entities from a maximum of nearly 7 percent of contracts in 2009 to less than 0.04 percent in 2011.

**5.90. By redesigning the operational model for framework agreements, the government could leverage its e-procurement platform, Guatecompras, to implement whole-of-government framework agreements for common use goods and services.**

183. In particular, for the indicated pilots the MOF has produced a set of guidelines to support the implementation of a results-based budgeting framework. This approach is based on the definition of results indicators for the short to medium term. Results indicators in the health sector include, for instance, the reduction of child and/or maternal mortality.

This would eliminate the use of direct contracting and exceptions for the procurement of common use goods and services, and thereby result in increased efficiency, reduced prices and increased transparency. This approach could also be applied to the procurement of pharmaceuticals.

**5.91. In the area of infrastructure, one of the key deficiencies identified by this review is the apparent lack of accountability in the area of contract management.** It appears that, whilst the government captures the entire contract management data related to infrastructure projects, it does not use this data as a management tool. The review identified a large number of contracts with significant overruns, some of which were many times the original contracted amount. In order to address these issues, a review should be undertaken to identify the causes of these overruns, and terminate any contracts which should have been re-bid rather than extended. Also, there is a need to implement stricter procedures in the contract management system to ensure that contracts cannot simply be extended or incur significant overruns without the proper public scrutiny. Another practice that should be avoided is the entering of contracts into the system *after* they have been complete (rather than when they are signed) only in order to make payments.

**5.92. The large commitments that exist in signed contracts exceeding the institutional budgets many times over, point to a disconnect between budgeting and execution.** These weaknesses point to a system where accountability is focused on compliance with process, rather than with a view to achieving results.

**5.93. A key area for reform is the development of a cadre of procurement specialists whose qualifications are founded on a competencies based system that is linked to career advancement as well as responsibility.** The adoption of such a certification system would ensure that public officials tasked with carrying out procurement activities are trained and thus knowledgeable on the application of a wide range of procurement methodologies. This initiative would also serve to create specialized units that would in turn have the skills and knowledge to address sector specific issues such as the procurement of pharmaceuticals, setting up and administering framework agreements, as well as complex infrastructure projects.

## LISTA DE REFERENCIAS

- Acemoglu, Daron and James Robinson (2006). "Economic Backwardness in Political Perspective." *American Political Science Review* 100: 115-31, 2006.
- Acemoglu, Daron and James Robinson (2008). "The Role of Institutions and Development," Working Paper 10, Commission on Growth and Development, 2008.
- Acevedo, Carlos (2008). *Los costos económicos de la violencia en Centroamérica*. San Salvador: Consejo Nacional de Seguridad.
- Achard, Diego and Luis E. Gonzalez (eds.) (2004). *A Challenge for Democracy - Political Parties in Central America, Panama and the Dominican Republic*. Washington DC: Inter-American Development Bank.
- Adams, Tani (2011). *Consumed by Violence*. Cambridge, MA: Collaborative for Development Action.
- Afonso, Antonio, Ludger Schuknecht, & Vito Tanzi (2005). "Public sector efficiency: An international comparison". *Public Choice*, Vol. 123(3), pages 321-347, June 2005.
- Agner, Joy (2008). "The Silent Violence of Peace in Guatemala". North American Congress on Latin America. Viewed March 2012. <http://nacla.org/node/4665>
- Asociación de Investigación y Estudios Sociales (ASIES) (2005). *Instituciones políticas, procesos de formulación de políticas y resultados de las políticas en Guatemala*. Latin America Research Network, Inter-American Development Bank, viewed May 10 2011, <http://www.iadb.org/res/publications/pubfiles/pubS-305.pdf>
- ASIES (2009). *Monografía de los Partidos Políticos, 2004-08*. Asociación de Investigación y Estudios Sociales, Departamento de Investigaciones Sociopolíticas, Guatemala, viewed May 10 2011, <http://www.monografias.com/trabajos-pdf3/guatemala-monografia-partidos-politicos/guatemala-monografia-partidos-politicos.pdf>
- ASIES (2010). *Monografía del Congreso de la República de Guatemala*. Asociación de Investigación y Estudios Sociales, Departamento de Investigaciones Sociopolíticas, Guatemala, viewed May 10 2011, <http://www.asies.org.gt/sites/default/files/articulos/publicaciones/201011%20Monografia%20del%20Congreso.pdf>
- ASIES (2011). *Análisis del proyecto de presupuesto de ingresos y egresos del Estado para 2011*. Ciudad de Guatemala: ASIES
- Bannister, Geoffrey J. & Luis-Diego Barrot (2011). *A Debt Intolerance Framework Applied to Central America, Panama and the Dominican Republic*. IMF Working Paper No. 11/220. Washington, DC: International Monetary Fund.
- Barbero, Jose (2009). *Potencial para Reducir los Requerimientos Financieros del Sector Vial*. Mimeo.
- Barreix, Alberto, Martin Bés and Jeronimo Roca (2009). *Equidad Fiscal en Centroamérica, Panamá y República Dominicana*. Washington, DC: IADB.
- Barrientos, Ricardo (2011). *La Economía Política del Gasto Público en Guatemala*. Background Paper for the Guatemala Public Expenditure Review.
- Bowser, Diana M. & Ajay Mahal (2011). "Guatemala: The economic burden of illness and health system implications". *Health Policy*, vol. 100(2-3), pages 159-166, May 2011.
- Briscoe, Ivan and Martin Rodriguez Pellecer (2010). *A state under siege: elites, criminal networks and institutional reform in Guatemala*. Netherlands Institute of International Relations, Clingendael, viewed May 10, 2011, [http://www.clingendael.nl/publications/2010/20100913\\_cru\\_publication\\_ibriscoe.pdf](http://www.clingendael.nl/publications/2010/20100913_cru_publication_ibriscoe.pdf)

- Bureau of International Narcotics and Law Enforcement Affairs (2009). *Counternarcotics and Law Enforcement Country Program: Guatemala*. Washington, DC: US Department of State.
- Cabrera, Maynor (2010). *Guatemala: La tributación directa, la evasión en el impuesto sobre la renta y sus desafíos*. In Juan Pablo Jiménez, Juan Carlos Gómez Sabaini and Andrea Podesta (eds.), *Evasión y Equidad en América Latina*. Santiago de Chile: CEPAL.
- Cabrera, Maynor (2011). *El lento progreso de las reformas tributarias en Guatemala: elementos para la construcción de una reforma viable*. Background Paper for the Guatemala Public Expenditure Review.
- Calvaruso, Andrea, Ricardo Stein and Fabrizio Feliciani (2008). *Transformaciones del Estado Guatemalteco a Diez Años de los Acuerdos de Paz: Un Ensayo*. Guatemala: Vicepresidencia de la República.
- Comisión Económica para América Latina y el Caribe (CEPAL) (2011). *Resumen Regional del Impacto de la Depresión Tropical 12-E en Centroamérica. Cuantificación de Daños y Pérdidas sufridos por los Países de la Región en el mes de octubre de 2011*. Santiago de Chile.
- Congressional Research Service (2009). *Gangs in Central America*. Washington, DC.
- Cooper, Adam & Catherine Ward (2008). *Prevention, disengagement and suppression: a systematic review of the literature on strategies for addressing young people's involvement in gangs*. Cape Town: Human Science Research Council.
- Cubero, Rodrigo and Ivanna Vladkova Hollar (2010). *Equity and Fiscal Policy: The INcome Distribution Effects of Taxation and Social Spending in Central America*. IMF Working Paper No. 10/112. Washington, DC: International Monetary Fund.
- Department for International Development (DfID) (2001). *Understanding and Reforming Public Expenditure - Guidelines for DfID*. London.
- Dirección General de Caminos (DGC) (2007). *Reformulación y Actualización del Plan de Desarrollo Vial 2008-2017*. Guatemala City.
- Dudley, Steven S. (2010). "Drug Trafficking Organizations in Central America: Transportistas, Mexican Cartels and Maras". In: Olsen, Eric L., David A. Shirk and Andrew Selee (eds.). *Shared Responsibility: US-Mexico Policy Options for Confronting Organized Crime*. Washington, DC: Woodrow Wilson Center.
- Estado de la Nación (2011). *El Estado de la Región*. San José, Costa Rica.
- Fuentes, Juan Alberto and Maynor Cabrera (2005). *El Pacto Fiscal de Guatemala: una oportunidad perdida*. Paper presented at the 17th Regional Seminar on Fiscal Policy. Santiago de Chile: CEPAL.
- García Díez, Fatima (2001). *Sistemas electorales de América Central y el Caribe: una introducción y algunas notas para el debate*. In Martínez, R. (ed.). *Prácticas de Sistemas Políticos Comparados II: Centroamérica y Caribe*. Barcelona: Universidad de Barcelona. P. 15-45.
- Gobierno de Guatemala (2010a). *Evaluación de Daños y Perdidas Sectoriales y Estimación de Necesidades Ocasionados por Desastres Naturales en Guatemala entre mayo septiembre de 2010*. Guatemala City.
- Gobierno de Guatemala (2010b). *Evaluación de Daños y Perdidas Sectoriales y Estimación de Necesidades Ocasionados por el paso de la Tormenta Tropical Agatha y la Erupción del Volcán Pacaya, Resumen Preliminar*. Guatemala City.
- Gomez Sabaini, Juan Carlos and Juan Pablo Jimenez (2011). *Tax structure and tax evasion in Latin America*. Santiago de Chile: CEPAL.
- Grupo de Apoyo Mutuo (GAM) (2011). *Informe de Transparencia Presupuestaria del Ministerio de Gobernación*. Guatemala City.
- Guatemala Human Rights Ombudsman (2011). *Informe Estadístico Sobre Homicidios, Lesiones y Violencia Intrafamiliar y Delitos Sexuales Contra la Mujer*. Guatemala.
- Herrera, Santiago & Pang, Gaobo (2005). *Efficiency of public spending in developing countries: an efficiency frontier approach*. Policy Research Working Paper Series No. 3645. Washington, DC: The World Bank.

- ICEFI (2007b). *Viabilidad de incrementar los impuestos al tabaco*. Working Paper Instituto Centroamericano de Estudios Fiscales (ICEFI), Guatemala, Mimeo.
- ICEFI (2012). *Análisis del Pacto Fiscal para el Cambio*. <http://www.icefi.org/categories/16?clas=5&detail=254>. Viewed March 14, 2012.
- Iniciativa de Transparencia del Sector Construcción (CoST) Guatemala (2010). *Estudio de Línea Base*. <http://www.costguatemala.org/wp-content/uploads/2010/12/CoST-Guatemala-Estudio-de-Transparencia1.pdf>. Accessed on March 6 2012.
- Iniciativa de Transparencia del Sector Construcción (CoST) Guatemala (2011). *Informe de Aseguramiento*. <http://www.costguatemala.org/wp-content/uploads/2011/07/INFORME-ASEGURAMIENTO-COST-JULIO-2011.pdf>. Accessed on March 6, 2012.
- InSight - Organized Crime in the Americas (2011). *Cuerpos Ilegales y Aparatos Clandestinos de Seguridad - CIACS* ([insightcrime.org/criminal-groups/guatemala/ciacs/item/1018-ciacs](http://insightcrime.org/criminal-groups/guatemala/ciacs/item/1018-ciacs)).
- Instituto Nacional de Estadísticas (2010). *Informe Final. V Encuesta Nacional de Salud Materno Infantil 2008-2009*. Guatemala City.
- Instituto de Estudios Comparados en Ciencias Penales de Guatemala (2007). *Observatorio de Justicia Penal*. Guatemala City.
- Inter-American Development Bank (2008). *Policy-making in Latin America: How Politics Shapes Policies*. Washington DC.
- Inter-American Development Bank and Washington Office on Latin America (WOLA) (2011). *Mapping Study of Internationally Funded Citizen Security Projects in Central America*. Washington, DC.
- International Crisis Group (2010). *Guatemala: Asfixiada entre el Crimen y la Impunidad*. Informe sobre América Latina N°33, 22 ([crisisgroup.org/en/regions/latin-america-caribbean/guatemala/033-guatemala-squeezed-between-crime-and-impunity.aspx](http://crisisgroup.org/en/regions/latin-america-caribbean/guatemala/033-guatemala-squeezed-between-crime-and-impunity.aspx))
- International Crisis Group (2011). *Drug Trafficking and Violence*, Latin American Report N°33. Guatemala City: Commission of Police Chiefs of Central America and Caribbean.
- Keefer, Phil (2011). "Collective Action, Political Parties, and Pro-Development Public Policy". *Asian Development Review*, vol. 28, no. 1, pp. 94-118.
- Kennedy, David (2008). *Deterrence and Crime Prevention: Reconsidering the Prospect of Sanction*. London: Routledge.
- LAPOP (2010). *Cultura política de la democracia: Informe de las Américas*. Viewed December, 2011. [http://www.vanderbilt.edu/lapop/ab2010/Report\\_on\\_the\\_Americas\\_Spanish\\_Formatted\\_V3\\_4april2011.pdf](http://www.vanderbilt.edu/lapop/ab2010/Report_on_the_Americas_Spanish_Formatted_V3_4april2011.pdf)
- LAPOP (2011). *Cultura política de la democracia en Guatemala, 2010*. Viewed May 22, 2011, [http://www.kas.de/wf/doc/kas\\_21707-1522-4-30.pdf?110124190800](http://www.kas.de/wf/doc/kas_21707-1522-4-30.pdf?110124190800)
- Lopez, Humberto (2001). Internal World Bank Memo.
- Mendoza, Carlos (2010). *Dinámicas políticas de las reformas fiscales en América Central*. Working paper for the 2nd Report of Fiscal Policy ICEFI, mimeo.
- Mendoza, Carlos (2012). <http://linchamientos.blogspot.com/p/datos.html>
- Menocal, Alina and Andrea Calvaruso (2008). *Power and Change Analysis: Guatemala*. Royal Netherlands Embassy, Guatemala City, Guatemala, August 2008.
- Moser, Caroline (2004). "Urban Violence and Insecurity: An Introductory Roadmap." *Environment & Urbanization*, Vol. 16 No. 2, October 2004.
- Musalo, Karen, Elisabeth Pellegrin and S. Shan Roberts (2010). "Crimes without punishment: Violence against women in Guatemala". *Hastings Women's Law Journal*, July: 161-221.
- Noriega, Arnoldo, Enríque Álvarez and Mario Chocoj (2001). *Cuando la sociedad guatemalteca se encuentra: la negociación política del pacto fiscal*. Guatemala: IPES.
- OECD (2011). *Revenue Statistics in Latin America (1990-2009)*. Paris: Organization for Economic Cooperation and Development.
- Organismo Judicial (2009). *Informe de Labores del Organismo Judicial 2009*. Guatemala.

- Ortiz, Gerson (2009), "Empresas de seguridad privada reflejan la debilidad del Estado" ("Private Security Firms Reflect the Weakness of the State"), *La Hora*, October 9, 2009.
- Partners for Democratic Change (2012). *Adjustment and Validation of the Juvenile Justice Assessment Tool*. Guatemala Juvenile Justice System Assessment. Washington, DC.
- Peacock, Susan C. and Adriana Beltrán (2003). *Hidden Powers in Post Conflict Guatemala*. Washington, DC: WOLA ([cgrs.uchastings.edu/pdfs/Hidden-PowersFull.pdf](http://cgrs.uchastings.edu/pdfs/Hidden-PowersFull.pdf)).
- Pessino, Carola and Ricardo Fenochietto (2010). "Determining countries' tax effort." *Revista de Economía Pública* 195-(4/2010):65-87. Madrid: Hacienda Pública Española.
- Pico, Juan Hernández (2009). "The Rosenberg Case: A Guatemalan Labyrinth," *Revista Envío* (English edition), June 2009, available from [www.envio.org.ni/articulo/4015](http://www.envio.org.ni/articulo/4015)
- Porras Castejón, Gustavo (2008). *Guatemala: Ten Years After the Agreements on a Firm and Lasting Peace*. Washington, DC: Inter-American Dialogue.
- Public Expenditure and Financial Accountability (PEFA) Secretariat (2005). *Public Financial Management Performance Measurement Framework*. Washington, DC.
- Ranum, Elin Cecilie (2006). *Pandillas juveniles transnacionales en Centroamérica, México y Estados Unidos*. Diagnóstico Nacional. Guatemala: Instituto Universitario de Opinión Pública.
- Replogle, Jill (2005). "In Guatemala, a Rise in Vigilante Justice," *ChristianScienceMonitor*, October 6, 2005.
- Sanchez, Omar (2008). *Guatemala's Party Universe: A Case Study of Under-Institutionalization*, *Latin American Politics and Society*, Vol. 50, No. 1 (2008), pp. 123-51.
- Sanford, Victoria (2008). "From genocide to femicide: Impunity and human rights in twenty-first century Guatemala". *Journal of Human Rights*, No.7: 104-122.
- Secretaría de Planificación y Programación de la Presidencia (SEGEPLAN) (2010). *Guía para incorporar la Gestión de Riesgo en la Inversión Pública*. Guatemala City.
- Schneider, A., Forthcoming, *State-building and Tax Regimes in Central America*. New York: Cambridge University Press
- Schneider, Aaron (In Press). *Socio-economic Change and Fiscal Challenges in Central America: Globalization, Democratization and the Politics of Reform*. In Sánchez-Ancochea, D. and Morgan, I. (Ed.) *Political Economy of the Budget Process in the Americas*. New York: Palgrave
- Schneider, Aaron and Annabella España-Najera (2011). *Guatemala: Limited Advance within Advancing Limits*. Unpublished Manuscript for the International Budget Project
- Schuster, Christian (2011). *The Political Economy of Public Finance in Guatemala*. Mimeo.
- Small Arms Survey (2008). *Small Arms Survey 2008: Risks and Resilience*. Geneva, Switzerland.
- Swiston, Andrew & Luis-Diego Barrot (2011). *The Role of Structural Reforms in Raising Economic Growth in Central America*. IMF Working Paper No. 11/248. Washington, DC: International Monetary Fund.
- Transparency International, *Global Corruption Report 2007: Corruption in Judicial Systems*, New York: Cambridge University Press, 2007, pp. 210-212
- UNDP (2006). *El Costo Económico de la Violencia en Guatemala*. Guatemala City.
- UNDP (2011). *Análisis de los presupuestos públicos de seguridad y justicia en Centroamérica*. Proyecto AECID/SICA/PNUD. Panama.
- UNODC (2011). *Global Study on Homicide*. Vienna: UNODC.
- USAID, *Central America and Mexico Gang Assessment: Annex2: Guatemala Country Profile*. April 2006
- Villalobos, Joaquin (2011). "Partidos Políticos y Feudalismo Criminal," *El País, Guatemala*, September 13, 2011.
- Villela, Luiz, Andrea Lemgruber and Michael Jorratt (2010). *Tax Expenditure Budgets - Concepts and*

- Challenges for Implementation. IADB Working Paper No.131. Washington, DC: Inter-American Development Bank.
- Wehner, Joachim (2006). *Legislative Institutions and Fiscal Policy*. PSPE working papers, 08-2006. Department of Government, London School of Economics and Political Science, London, UK.
- World Bank (2005a). *Guatemala Public Expenditure Review*. Washington, DC.
- World Bank (2005b). *Guatemala Country Economic Memorandum - Challenges to Higher Economic Growth*. Washington, DC.
- World Bank (2007). "The Promise of Youth: Policy for Youth at Risk in Latin America and the Caribbean."
- World Bank (2008a). *Guatemala - Investment Climate Assessment*. Washington, DC. Report No.47193-GT. Washington, DC.
- World Bank (2008b). *Local Gains from Global Opportunities: Improving Central America's Investment Climate*. Washington, DC.
- World Bank (2009). *Guatemala Poverty Assessment: Good performance at low levels*. Report No.43920-GT. Washington, DC.
- World Bank (2010a). *Crime and Violence in Central America*. Washington, DC.
- World Bank (2010b). *Guatemala Performance Report on Public Expenditure and Financial Accountability (PEFA)*. July 2010. Viewed October 12, 2011, [http://www.minfin.gob.gt/archivos/prensa/pefa\\_ing.pdf](http://www.minfin.gob.gt/archivos/prensa/pefa_ing.pdf)
- World Bank (2010c). *Prioridades para Salud y Nutrición en Guatemala: Un Camino Propuesto a Seguir*. Mimeo.
- World Bank (2011a). *Doing Business 2011*. Washington, DC.
- World Bank (2011b). *Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't*. Washington, DC.
- World Bank (2011c). *La política educativa como instrumento de desarrollo de largo plazo en Guatemala*. Mimeo.
- World Bank (2012). *Prioridades para Salud y Nutrición en Guatemala: Un Camino Propuesto a Seguir*. Mimeo.
- World Economic Forum (WEF) (2008). *Global Competitiveness Report 2008-2009*. Geneva, Switzerland.
- World Economic Forum (WEF) (2009). *Global Competitiveness Report 2009-2010*. Geneva, Switzerland.
- World Economic Forum (WEF) (2010). *Global Competitiveness Report 2010-2011*. Geneva, Switzerland.
- World Economic Forum (WEF) (2011). *Global Competitiveness Report 2011-2012*. Geneva, Switzerland.

## ANNEX 1: RESULTS OF OLS REGRESSION

TABLE A1.1: RESULTS OF OLS REGRESSION

	Test Scores level 3	Test Scores level 6	Test Scores level 12	Completion Rates Level 6	Completion Rates Level 9
Per pupil Spending in Education	-0.11	0.03	-0.19	-0.03	0.05
	0.69	0.23	1.56	0.31	0.46
Adult literacy Rates	0.45	0.66	-0.02	-0.09	0.10
	2.34**	5.40***	0.26	0.82	1.45
Teachers per 100 students	0.01	-0.03	0.02	0.05	0.08
	0.39	1.19	0.98	2.41**	5.37***
Chronic Malnutrition rates	0.00	-0.01	0.00	0.00	0.00
	2.43**	3.92***	0.10	0.42	1.49
% population living in urban	0.08	0.08	0.04	-0.13	-0.04
	0.75	0.91	0.73	1.90*	0.80
% population indigenous	-0.15	-0.08	-0.01	-0.01	-0.03
	2.80***	1.62	0.39	0.33	0.82
Population density	0.05	0.07	0.03	0.07	0.05
	1.13	1.97*	1.59	2.37**	2.10**
Poverty rates	-0.14	0.03	-0.21	-0.11	-0.01
	1.00	0.21	2.28**	1.01	0.18
Extreme poverty rates	-0.11	-0.08	0.10	-0.06	-0.05
	3.19***	3.05***	7.81***	1.51	1.91*
Observations	231	233	185	233	233
Adjusted R-squared	0.43	0.47	0.23	0.05	0.37

Robust t-statistics in italics. \* significant at 10% level; \*\* significant at 5% level; \*\*\* significant at 1% level

Source: Authors' calculations. Notes: per pupil spending refers to spending in education function (excluding tertiary) in 2010 for central spending plus average spending at municipal level in 2008 and 2009. Test scores, completion rates, teacher pupil ration and adult literacy rates are from the Ministry of Education and Directorate of Planning (DIPLAN), Malnutrition rates were downloaded from SIGSA. Percentage population living in urban, indigenous, population density, poverty and extreme poverty rates taken from the Municipal Development Plans developed by the Secretariat of Planning (SEGEPLAN).

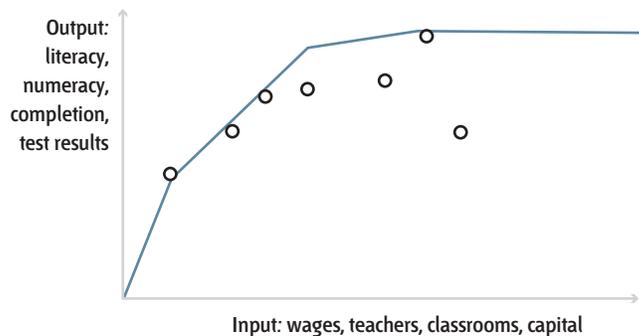
## ANNEX 2: DATA ENVELOPMENT ANALYSIS (DEA)

### Data Envelopment Analysis (DEA) of the efficiency of public spending

Data envelopment analysis is a methodology that, through linear programming, generates “efficiency frontiers” and estimates relative efficiency scores as the difference from such frontier. Once derived, these efficiency scores can be mapped to detect possible geographical patterns or can be compared with approximations of need (i.e. extreme poverty rates, malnutrition, etc.) and per capita expenditure to reveal differences across the country. The

production frontier for Guatemala was modeled by a combination of multiple output indicators - including completion rates and test scores - and multiple inputs which included per pupil spending in basic education, teachers/pupil ratios, and class sizes, as well as a host of socio economic indicators that are known to play a large role on student achievement. These control variables included adult literacy rates and malnutrition rates<sup>184</sup>.

GRÁFICO A: MODELING THE PRODUCTION FRONTIER USING DATA ENVELOPMENT ANALYSIS



Looking for relative efficiency as distance (ranking) from frontier of “good practice”

184. Additional variables could have been added to this analysis including poverty rates, population density, etc., however were omitted due to the non availability of these indicators for all municipalities. These variables however were used in the multi-variate regressions discussed in the next section.

### ANNEX 3: IMPACT OF RECENT NATURAL DISASTERS ON ROAD SECTOR

Guatemala, like most of the countries in Central America, is highly vulnerable to natural disasters due to its geographical location. Every year Guatemala is hit by the negative impacts of the rainy and stormy seasons, and during the last ten years has had the impacts of four strong natural disasters that left significant negative impacts in the country across sectors: Stan in 2005, Agatha in 2010, and the Eruption of the Volcano Pacaya also in 2010. In October 2011, the Tropical Depression 12-E hit Mexico and the Central American region leaving significant damages in these countries including Guatemala.

A Post Disaster Needs Assessment (PDNA) carried out after the eruption of the Pacaya Volcano (May 2010) and the Agatha Storm (June 2010) quantified damages of the road sector in the equivalent of US\$304 million (Q.2,456 million). Damages in the

road sector include damages to the physical infrastructure (slopes erosions, landslides, damages on the road surface, bridges, drainage, ancillary and hydraulic works). The damages in the road sector were 51 percent of the total damages of US\$595.8 and they also represent 67 percent of the executed budget of DGC and COVIAL in 2010. Table 10 presents the quantified damages by the type of network, showing that the rural road network was the most damaged. The evaluation identified over 50 road points where traffic was suspended due to destroyed infrastructure (bridges and other structures).

The Damages and Losses Assessment (DALA) carried out after the storm 12-E assessed the damages in the road sector equivalent to US\$ 35 million (Q.275.4 million). After this event the road sector again was the most affected sector. The damages in the sector represented 43percent of the total damages estimated in US\$81.9 million (Q.643.7 million). As presented in Table 10 for Guatemala the storm 12-E left less dam-

**TABLE A3.1: DAMAGES DUE TO THE NATURAL DISASTERS OF AGATHA AND PACAYA VOLCANO (2010) AND STORM E-12 (2011)**

Sector	Agatha and Pacaya	Tropical depression 12-E
Damages in the transport sector (US\$ million)	304.8	35.0
% of total damages	51%	43%
% of 2010 executed budget of DGC and COVIAL	67%	8%
% of GDP	0.74%	0.09%
Damages in all sectors (US\$ million)	595.8	81.9
% of total damages	100%	100%
% of 2010 executed budget of Central Administration	10%	1.3%
% of GDP	1.45%	0.2%

Source: PDNA 2010, DALA 2011, and own estimations.

185. The PDNA also quantified the losses for the transport sector in US\$20.9 (Q.168.4 million). Since the losses in the transport sector are related to the private sector or vehicle passengers - vehicle operating costs (gas, lubricants, wheels depreciation, and maintenance) and the time value of the passengers due to congestion, and transit detours - for the purposes of the PER analysis have been excluded.

186. The losses estimated due to the tropical depression 12-E for the road sector amount US\$1.79 million (Q.14.08 million) and the losses including all sectors US\$251.2 million (Q.1,974.6 million).

187. The PDNA also quantified losses in all sector for an amount of US\$379 million (Q.3,055.3 million) for a total amount of damages and losses of US\$974.9 million, 2.37% of GDP. Guatemala has had in the past natural disaster that left damages as a percentage of GDP higher than the events in 2010. The earthquake in 1979 left damages and losses as percentage of GDP of 17.9%, Mitch Storm 4.7% and Stan Storm 3.4%.

ages and losses than the natural disasters in 2010, for both, the road sector and including all sectors.

The PDNA also proposed an investment program in the sector to reconstruct damage infrastructure as presented in Table 12 for the period 2010-2014. The objective of presenting separate investment lines for bridges and slopes is to give importance to these structures including to the preventive activities to reduce the vulnerability of bridges and slopes. Horizontal structures are highly vulnerable to natural disasters. Recent designs are important to consider changes in the terrain and changes in the flow of water sources where these structures

are built. For reducing the vulnerability of bridges is important building higher and wider structures to avoid the increased water level during the rainy/storm season. For slopes, reshaping is important to reduce the risk of landslides on the routes which cause damages to the roads, cause removal costs, and are a risk to vehicles and passengers. The estimation for reconstruction investment needs is larger for roads (74 percent), but the needs for bridges and slopes represent about 15 percent for each item line. The reconstruction needs are estimated for annual amounts of around US\$80 million for the first years, which is around 19 percent of the 2010 executed budget for DGC and COVIAL.

**TABLE A3.2: DAMAGES IN THE ROAD NETWORK DUE TO THE NATURAL DISASTERS OF 2010 - AGATHA AND PACAYA VOLCANO**

Road Network Type (within Guatemalan territory)	Quantified Damages (in Q. million)	Quantified Damages (in US\$ million)	%
Centro-American	456.3	56.6	19%
Principal National Network	511.0	63.4	21%
Departamental Secondary Network	507.6	63.0	21%
Rural Network	981.5	121.8	40%
<b>Total</b>	<b>2,456.4</b>	<b>304.8</b>	<b>100%</b>

Source: PDNA, 2010.

**TABLE A3.3: RECONSTRUCTION INVESTMENTS NEEDS IN THE ROAD SECTOR (IN US\$ MILLION)**

	Total amount	%	2010	2011	2012	2013	2014
Rehabilitation and reconstruction of Main Routes	186.2	50%	43.4	43.4	37.2	31.0	31.0
Rehabilitation of Secondary and Tertiary Routes	80.7	22%	24.8	18.6	18.6	12.4	6.2
Bridges designs – preventive	6.2	2%	2.5	3.7	0.0	0.0	0.0
Reconstruction of Bridges	43.4	12%	8.7	9.9	9.9	8.7	6.2
Reshaping of slopes – preventive	55.8	15%	6.2	12.4	12.4	12.4	12.4
<b>Total</b>	<b>372.3</b>	<b>100%</b>	<b>85.6</b>	<b>88.1</b>	<b>78.2</b>	<b>64.5</b>	<b>55.8</b>
% of 2010 executed budget of DGC and COVIAL	81%	19%	19%	17%	14%	12%	81%

Source: PDNA, 2010.

ANNEX 4: PUBLIC EXPENDITURES ON CITIZEN SECURITY

**TABLE A4.1: ALLOCATED NATIONAL BUDGET BY INSTITUTION AND TYPE OF EXPENDITURE (2004-2010)**

Q. million	2004	2005	2006	2007	2008	2009	2010
<b>Security (Function 202)</b>							
Ministry of the Interior	1,581	1,700	1,912	1,912	2,348	3,005	2,938
President's Office*	38	94	95	95	126	139	139
Ministry of Communications, Infrastructure and Housing		12	47	47	40	27	27
Secretaries and other dependence of the Executive Power							31
Obligations of State in charge of the Treasury	66	71	94	94	165	122	204
<b>Total Security</b>	<b>1,685</b>	<b>1,877</b>	<b>2,148</b>	<b>2,148</b>	<b>2,679</b>	<b>3,293</b>	<b>3,338</b>
<b>Justice (Function 102)</b>							
Ministry of the Interior					30	30	
Obligations of State in charge of the Treasury	1,210	1,246	1,438	1,438	1,974	1,990	1,893
Public Defender's Office**	37	34	37	37	47	53	53
Judicial Agency***			1,616	1,825	1,974	1,990	1,980
Human Rights Office***			37	74	41	48	224
<b>Total Justice</b>	<b>1,247</b>	<b>1,280</b>	<b>3,127</b>	<b>3,373</b>	<b>4,065</b>	<b>4,110</b>	<b>4,150</b>
<b>Total Security and Justice</b>							
<b>Q. million</b>	<b>2,931</b>	<b>3,157</b>	<b>5,276</b>	<b>5,522</b>	<b>6,744</b>	<b>7,403</b>	<b>7,488</b>
% current exp.	95.1	95.7	93.0	93.0	96.0	94.6	95.0
% capital exp.	4.9	4.3	7.0	7.0	4.0	5.4	5.0
<b>US\$ million</b>	<b>369</b>	<b>413</b>	<b>694</b>	<b>719</b>	<b>892</b>	<b>907</b>	<b>929</b>
<b>% of total exp.</b>	<b>9.5</b>	<b>9.7</b>	<b>14.0</b>	<b>14.6</b>	<b>15.9</b>	<b>14.9</b>	<b>15.0</b>
<b>% of GDP</b>	<b>1.5</b>	<b>1.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>

\*Includes: Secretaria de Asuntos Administrativos y de Seguridad, Consejo Asesor de Seguridad y Consejo Nacional de Seguridad; not officially classified as Security \*\*Not officially classified as Justice \*\*\*Data from PNUD (2011), Organismo Judicial includes: Organismo Judicial, Ministerio Publico and Instituto de Defensa Publica Penal. Source: Official National Budget Database, and UNDP. Own calculations

**TABLE A.4.2: ALLOCATED NATIONAL BUDGET ON CITIZEN SECURITY, BY PILLAR AND INSTITUTION (2004-2010)**

Q. million	2004	2005	2006	2007	2008	2009	2010
<b>CONTROL/ REPRESSION</b>							
<b>JUSTICE</b>							
Ministry of Interior					30	30	
Ministry of Communications, Infrastructure and Housing							
Secretaries and other dependence of the Executive Power							
Obligations of State in charge of the Treasury	1,210	1,246	1,438	1,438	1,974	1,990	1,893
Public Defender's Office*	37	34	37	37	47	53	53
Judicial Agency***			1,616	1,825	1,974	1,990	1,980
Human Rights Office***			37	74	41	48	224
<b>SECURITY</b>							
Ministry of Interior	119	153	74	74	2,034	2,580	2,528
Ministry of Communications, Infrastructure and Housing		11	11	11	2	1	1
Secretaries and other dependence of the Executive Power							22
Obligations of State in charge of the Treasury			20	20			96
President's Office**	38	94	95	95	126	139	139
Total Control/ Repression	1,403	1,538	3,327	3,573	6,227	6,830	6,936
<b>INSTITUTIONAL STRENGTHENING</b>							
<b>SECURITY</b>							
Ministry of Interior	1,308	1,398	1,670	1,670	122	100	109
Ministry of Communications, Infrastructure and Housing			36	36	35	26	26
Obligations of State in charge of the Treasury	66	71	74	74	165	122	6
Total Institutional Strengthening	1,374	1,468	1,780	1,780	322	248	141
<b>PREVENTION</b>							
<b>SECURITY</b>							
Ministry of Interior	8	2	16	16	21	76	52
Secretaries and other dependence of the Executive Power							9
Obligations of State in charge of the Treasury							101
Total Prevention	8	2	16	16	21	76	162
<b>REHABILITATION</b>							
<b>SECURITY</b>							
Ministry of Interior	146	147	152	152	170	249	249
Ministry of Communications, Infrastructure and Housing		1	1	1	4		
<b>Total Rehabilitation</b>	<b>146</b>	<b>148</b>	<b>152</b>	<b>152</b>	<b>174</b>	<b>249</b>	<b>249</b>
<b>TOTAL</b>	<b>2,931</b>	<b>3,157</b>	<b>5,276</b>	<b>5,522</b>	<b>6,744</b>	<b>7,403</b>	<b>7,488</b>

\*Not officially classified as Justice. \*\*Includes: Secretaria de Asuntos Administrativos y de Seguridad, Consejo Asesor de Seguridad y Consejo Nacional de Seguridad; not officially classified as Security. \*\*\*Data from PNUD (2011), Organismo Judicial includes: Organismo Judicial, Ministerio Publico and Instituto de Defensa Publica Penal. Source: Official National Budget Database, UNDP and own calculations









**THE WORLD BANK**

The World Bank  
1818 H Street, NW,  
Washington, DC 20433, USA