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Plurinational State of Bolivia

Bolivia—Public Financial Management Review

Public Financial Management Review, based on the PEFA Methodology

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World Bank
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FISCAL YEAR OF THE REPUBLIC OF BOLIVIA
January 1 to December 31

CURRENCY EQUIVALENCE
(As of August 19, 2009)
1 US Dollar equals 7.07 Bolivianos (Bs)

WEIGHTS AND MEASURES
Metric System

World Bank		Inter-American Development Bank	
Vice President, LCR:	Pamela Cox	Vice President, LCR:	Roberto Vellutini
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Sector Manager:	Roberto Tarallo	Task Team Leader:	Héctor Rabade
Task Team Leader:	Lourdes Linares		

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Acronyms and Abbreviations

ABC	Bolivian Highway Administration (*Administración Boliviana de Carreteras*)
ANPE	National Support to Production and Employment (*Apoyo Nacional a la Producción y Empleo)*
CAF	Andean Development Corporation (*Corporación Andina de Fomento*)
CGE	Comptroller's General Office (*Contraloría General del Estado*)
CGR	Comptrolle's General Office (*Contraloría General de la República*)
COFOG	Classifications of Functions of Government
EFIP	Evaluation of Public Finance *(Evaluación de las Finanzas Públicas)*
EU	European Union
FPS	National Productive and Social Investment Fund (*Fondo Nacional de Inversión Productiva y Social*)
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries.
IDB	Inter-American Development Bank
IDH	Direct Tax on Hydrocarbons (*Impuesto Directo a los Hidrocarburos*)
IEHD	Special Tax on Hydrocarbons and their Derivatives (*Impuesto Especial a los Hidrocarburos y sus Derivados*)
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards (IFAC issued)
ITF	Tax on Financial Transactions (*Impuesto a las Transacciones Financieras*)
MDO	Ministries, departments and organizations
MEFP	Ministry of Economy and Public Finance (*Ministerio de Economía y Finanzas Públicas*)
MPD	Ministry of Development Planning (*Ministerio de Planificación del Desarrollo*)
OECD	Organization of Economic and Cooperative Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicators
SAYCO	Administration and Control System (*Sistema de Administración y Control*)
SIAP	Personnel Management Information System (*Sistema de Información de Administración de Personal*)
SICOES	Government Procurement Information System (*Sistema de Información de Contrataciones Estatales*)
SIGADE	Foreign Debt Management and Administration Information System (*Sistema de Información para la Gestión y Administración de la Deuda Externa*)
SIGMA	Integrated Administrative Management and Modernization System (*Sistema Integrado de Gestión y Modernización Administrativa*)
SINCOM	Integrated Municipal Accounting System (*Sistema Integrado de Contabilidad Municipal*)
SISFIN	External Financing Information System (*Sistema de Información sobre Financiamiento Externo*)
SISIN	Investment Information System (*Sistema de Información sobre Inversiones*)
SNIP	National Public Investment System (*Sistema Nacional de Inversión Pública*)
SSPC II	Social Sectors Programmatic Development Policy Credit II
UN	United Nations
VTCP	Vice Ministry of Treasury and Public Credit (*Viceministerio de Tesoro y Crédito Público*)
YPFB	Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian State Oil Company)

Acknowledgments

This Public Financial Management Review in the central government of the Plurinational State of Bolivia is a joint effort by the Ministry of Economy and Public Finance, the World Bank and the Inter-American Development Bank (IDB), based on the work conducted and the information gathered between the months of April and July 2009. The team was lead by Lourdes Linares (World Bank) and included: Enrique Fanta (World Bank), José Valderrama (Consultant), Eileen Browne (Consultant), Ulises Guardiola (Consultant), and Marcelo Barrón (Consultant).

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Executive Summary

ES.1 The National Development Plan highlights the Bolivian Government's commitment to improving efficiency, transparency, and accountability in the use of public resources. Within that framework, the authorities of the Ministry of Economy and Public Finance (*Ministerio de Economía y Finanzas Públicas, MEFP*) expressed their interest in conducting a public finance performance review following the Public Expenditure and Financial Accountability (PEFA) framework. Under this initiative the MEFP conducted a self-assessment, *Evaluación de las Finanzas Públicas* (EFIP), at the beginning of 2008, which was then updated in a second phase toward the end of the same year.

ES.2 Based on that first experience and recognizing the usefulness of the PEFA instrument, in 2009 the Government of Bolivia decided to conduct a new review with support of the Inter-American Development Bank (IDB) and the World Bank, as a joint effort designed to enrich the self-assessment experience, with a broader, external and independent view of the central government's public financial management (PFM) systems.

ES.3 The purpose of this PEFA review is to provide the Government, international donors, and other stakeholders with an objective diagnosis of the performance of the PFM systems, processes, and institutions, using 31 high-level indicators taken from the PEFA reference framework. In accordance with government requirement, the review focuses on the central government's public expenditure and revenues, which include central administration, decentralized non-business institutions, and social security entities, covering approximately 47 percent of the total public sector expenditure. This scope excludes the sub-national level—prefectures and municipalities—and state-owned companies (financial and non-financial) although the transfers to these institutions by the central government are considered for certain indicators.

ES.4 In accordance with the PEFA methodology, this review is not designed to comment on aspects of expenditure policy or fiscal policy nor is it intended to assess particular institutions within Government; likewise it does not focus on institutional capacity issues. By the same token, this review does not include recommendations or detailed actions to strengthen PFM; it is expected, however, that the resulting diagnosis will serve the Government as a starting point to initiate a dialogue and discussions with various stakeholders, with a view to identifying opportunities for improvement and to be able to set reform priorities.

Integrated Assessment of Public Financial Management

ES.5 This section presents a summary of the performance of PFM systems, procedures, and practices based on the high-level indicators of the PEFA methodology in its six areas: budget credibility; comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit.

Budget credibility

ES.6 At the aggregate level–and restricted to primary expenditure—Bolivia has an acceptable performance at the central government level since no significant variations were observed between the aggregate-executed expenditure (paid) and the original approved budget;

however, that low difference results rather from two divergent factors that mutually offset each other—significant budgetary increases and a slower pace of execution regarding a modified budget. Taking into consideration the administrative classification (institutional), the composition of the executed expenditure presents a significant out-turn as compared to the original approved budget.

ES.7 With respect to revenue, and taking into account that the methodology focuses exclusively on comparing the total collected revenue against the original approved budget, the data reported also show a favorable performance, rather than reflecting an underestimate. Besides the improvements in the estimation of fiscal revenues, a determinant factor for this behavior was the favorable context with higher-than-expected international prices for hydrocarbons.

ES.8 Under such considerations, albeit at an aggregate level, the data show an acceptable performance; the credibility of the budget for the years under review is affected by the following factors: (a) continuous and significant budgetary increases and amendments (although these are legally transparent), (b) significant out-turns and differences in composition of the expenditure at the institutional level (administrative), and (c) lack of an adequate system to track payment arrears.

Comprehensiveness and transparency

ES.9 A fundamental aspect of the PFM system is the broad coverage of the National General Budget (*Presupuesto General de la Nación*), which includes central government agencies, social security institutions, state-owned enterprises, and territorial administration (only at the level of transfers to the municipal governments), as well as incorporation of donor-financed programs and projects (grants and loans). No indication of significant extra-budgetary expenditure was found.

ES.10 In spite of this broad coverage, comprehensiveness and transparency are affected since the information that accompanies the budget bill presented to Congress does not include explicit information on the public debt balance, the financial assets balance, or the results of the previous year's budget. Also absent is an explanation of the budgetary consequences of the new significant policy initiatives, something that restricts and hinders Congress' review of the budget bill (as well as that of interested stakeholders in general).

ES.11 Regarding transparency in inter-governmental fiscal relations (understood as the existence of clear rules for the horizontal distribution of the transfers granted by the central level), Bolivia has an acceptable performance. However, it is affected by delay in supplying reliable information to subnational levels on allocations that will be made by the central government in the following fiscal year, which also affects the budget preparation process at these instances.

ES.12 In connection with tracking and monitoring of fiscal risks caused by other public sector entities, including subnational governments, the Vice Ministry of Treasury and Public Credit (*Viceministerio de Tesoro y Crédito Público, VTCP*) is developing major initiatives such as the Institutional and Financial Performance Program, which among other things provides information on the stock of subnational debt. This information however is still incomplete, and there are no global reports on the aggregate fiscal risk generated by these other entities.

Policy-based budget

ES.13 Bolivia is at an early stage of having a multi-annual approach to fiscal planning, expenditure policy, and budgeting; and the link between the annual budget and the National Development Plan (*Plan Nacional de Desarrollo*) development objectives is very tenuous.

ES.14 Beyond the lack of a multi-annual approach, the annual budget formulation process is affected by a couple factors. First, although there is a clear annual calendar for submittal of the budget bill by the Executive and its approval by the Legislature, no dates or deadlines are stipulated for the intermediate budget development stages. The budgetary guidelines and ceilings approved for each entity are communicated with little forewarning of their arrival, and the deadlines that are granted to entities in order to send their preliminary drafts are short and do not allow sufficient time for detailed discussions between the MEFP and the line ministries. Second, in none of the three years under review did Congress complete its review of the budget bill submitted by the Executive; therefore, the bill was not explicitly approved. These aspects, in accordance with the PEFA methodology, considerably impinge upon the orderly and participatory character of the budget while at the same time limit the exercise of fundamental requirements for a sound fiscal management: the explicit approval of the budget by the citizens' representative body, strengthening the level of transparency and fostering an appropriate accountability.

Predictability and control in budget execution

ES.15 The budget's orderly and predictable execution requires that transactions may be subject to control at each stage of the expenditure cycle (commitment, verification, issue of payment order and payment) and for the appropriate operation of the internal control and audit systems established in each entity. From that perspective, the aspects discussed below characterize budget execution at the central government level.

ES.16 With regards to revenues, taxpayers' tax liabilities and obligations are recorded and reported in a transparent manner and are framed within comprehensive legislation that limits discretionary enforcement. On the other hand, there is a single taxpayer registry system, linked to other public registration systems, and an effective system for the collection of tax arrears.

ES.17 The management and availability of funds for budget execution benefits from the effective operation of a single treasury account, preparation of monthly cash flow forecasts, and daily consolidation and reconciliation of cash balances. However, the maximum caps to commit expenditures are approved and communicated on a monthly basis for investment expenditure and on a quarterly basis for current expenditure, something which reduces the time horizon available to entities for adequate planning and monitoring of their expenditure commitments. This could cause payment arrears.

ES.18 The mechanisms for control and recording of public debt have been strengthened, and there is a clear and efficient system to take loans and grant guarantees, while in turn ensuring the maintenance of complete and updated records on both domestic and foreign debt.

ES.19 The administration and control of salary expenses (payroll) are affected by the lack of a direct linkage between the personnel databases maintained by each entity and the payroll payment generation systems. Although the MEFP has established some specific controls on the monthly payroll (double payment and salary level), the payroll generation process has not been subject to any kind of external audit.

ES.20 Regarding the national procurement system, it should be noted that the PEFA methodology examines the system from a macro point of view but does not look into the detailed performance of the system as a whole. Under these considerations and regarding the specific aspects required in the methodology, the data gathered show that the system partially meets the objectives of the indicators, but the evidence seemingly points to the need for a more in-depth and detailed assessment of the procurement system. This process, in fact, is underway through the application of OECD indicators that will make it possible to focus, for example, on aspects related to low execution and potential inefficiency derived from fragmentation stemming from lack of aggregation.

ES.21 The use and expansion of the Integrated Administrative Management and Modernization System (*Sistema Integrado de Gestión y Modernización Administrativa*, *SIGMA*) has enabled adequate operation of the controls that restrict expenditure commitments to budget allocations and cash availability. The internal control system however—including the internal audit function—has a limited efficacy and pertinence as a result of having focused on transaction control activities but not on systemic aspects based on risk assessments in accordance with the nature of an entity.

Accounting, recording, and reporting

ES.22 The implementation and expansion of SIGMA—both central and local—has made it possible to significantly improve the availability of information on budget execution. Based on such information and the reports sent by the other entities, monthly budget execution aggregated reports are available for the public sector, although only for internal purposes. The issue of annual financial statements remains restricted to the central administration; and such reports are not subject to external audit review, something that could provide independent assurance regarding the reliability and reasonability of the public sector financial information—in this case for the central administration.

External scrutiny and audit

ES.23 The Auditor's General Office (*Contraloría General del Estado, CGE*) does not conduct financial audits of financial statements of the central administration or of the consolidated budget execution at either a general level or level of individual entities. The legislative scrutiny of the annual budget law and the external audits during the years under review has also been limited. In none of those years did the Legislature complete its review and budget discussion; consequently, it has not explicitly approved the bill submitted by the Executive. Although all CGE-issued reports are sent to Congress, it is not within the scope or resources of this review to conduct a systematic study of these reports.

Evaluation of the Impact of Public Financial Management Failures

ES.24 The performance of PFM systems may favor or hinder the achievement of overall budget outcomes in terms of aggregate fiscal discipline, strategic resource allocation, and efficient service delivery; and, generally, contribute to the transparency and efficiency of expenditure.

ES.25 Based on the strengths and weaknesses identified through the indicators used by the PEFA methodology, the aggregate fiscal discipline benefits from broad budget coverage, improvements in forecasting of fiscal revenues, and establishment of arrangements that help limit the level of expenditure to the actual availability of cash. However, there are aspects that could hinder fiscal discipline. These might include continuous and significant budget amendments that, although legally transparent, are not always subject to scrutiny by Congress; lack of an adequate mechanism to identify, track, and monitor payment arrears; and need to strengthen arrangements to monitor the global fiscal risk generated by other public sector entities, including sub-national governments.

ES.26 Beyond the lack of multi-annual planning, the strategic allocation of resources is affected by the lack of an orderly and participatory process in the formulation and preparation of the annual budget. This process has been characterized by giving entities very short deadlines to submit their draft budgets, and with being limited to adjusting requirements to assigned ceilings but without having had opportunity to conduct an adequate analysis for the strategic allocation of available resources. As a result of this situation, it is necessary to resort to continuous budget changes which, depending on their nature, could delay the implementation of activities. On the other hand, the tracking, control, and oversight in the use of resources in accordance with the policies enunciated could benefit from a greater use of reports by purpose and function.

ES.27 Although efficient service delivery is fostered by reliable cash forecasts and flows in order to commit and execute expenditures, the time horizon of these forecasts (monthly) does not always allow for adequate planning of activities, which could lead to practices such as delays in recording, recognizing, and paying liabilities to contractors and suppliers. The need of having to resort to continuous budget amendments (as discussed above) could also delay service delivery. This situation also affects sub-national levels when they do not receive timely and reliable information for adequate planning of their activities.

ES.28 Other aspects of a strengthened PFM system that could benefit effective service delivery across levels include: (a) internal control systems, including the internal audit function, which on a risk evaluation basis could focus on systemic issues rather than merely transactional and compliance ones; (b) information on budget execution per purpose and function that may serve to track and monitor the execution of policies and priorities (current and capital expenditure); and (c) independent external audit review and scrutiny by the Legislature.

Prospects for Reform Planning and Implementation

ES.29 With the approval of the new Political Constitution, Bolivia is undergoing a change process that includes ongoing efforts to adjust or adapt the PFM legal framework. Under consideration is development of a public management law that could also be accompanied by strengthening the systems, processes, and institutions of the PFM system.

ES.30 This review can provide input to the Government in carrying out its internal discussions and consultations with other stakeholders—including the donor community—as it develops an action plan for PFM strengthening. When formulating and defining these priorities, it will be important to take into account the feasibility and pertinence of the proposed reforms with regard to not only their usefulness or necessity but to the conditions necessary for implementing certain actions. These conditions might require an immediate assurance of adequate basic PFM-based operations and development and strengthening of institutional capacities to carry them out.

ES.31 Bolivia has made significant improvements in its PFM systems by expanding SIGMA, the Single Treasury Account, and the responsible management of the treasury and public debt functions. Other basic aspects must be addressed early in the process. These include annual budget formulation, execution, and tracking, which encompass interaction with the Legislature, preparation of reports and financial statements supported by an independent review regarding their pertinence and reliability, and strengthening of internal control and internal audit functions. These earlier actions could then be followed by more in-depth and ambitious reform processes such as the management of a multi-annual budget, a results-based budget, or a change of approach to performance audit processes.

ES.32 The need to adequately establish the timing and sequence of the reforms pursued is even more important in view of the forthcoming changes in the organizational, territorial, and jurisdictional structure. The scoring of performance indicators for Bolivia's public financial management are summarized in Table ES1.

Table ES1. Performance Indicators for Bolivia's Public Financial Management Systems

	A. PUBLIC FINANCIAL MANAGEMENT OUTCOMES: Budget credibility	Method	Scoring
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B
PI-2	Budget expenditure composition out-turn compared to approved budget	M1	C
PI-3	Aggregate revenue out-turn compared to original budget	M1	A
PI-4	Stock and monitoring of expenditure payment arrears	M1	N/A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	M1	A
PI-6	Comprehensiveness of information included in budget documentation	M1	C
PI-7	Extent of government operations included in budget reports	M1	A
PI-8	Transparency of inter-governmental fiscal relations	M2	C+
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	M1	C
PI-10	Public access to key fiscal information	M1	B
	C. BUDGET CYCLE		
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	M2	D+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	M2	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B+
PI-15	Effectiveness in collection of tax payments	M1	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A
PI-18	Effectiveness of payroll controls	M1	D+
PI-19	Competition, value for money and controls in procurement	M2	B
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D+
PI-21	Effectiveness of internal audit	M1	C

C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	**M2**	**B**
PI-23	Information on resources received by service delivery units	**M1**	**D**
PI-24	Quality and timeliness of in-year budget reports	**M1**	**C+**
PI-25	Quality and timeliness of annual financial statements	**M1**	**D+**
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	**M1**	**D+**
PI-27	Legislative scrutiny of the annual budget law	**M1**	**D+**
PI-28	Legislative scrutiny of external audit reports	**M1**	**D**
	D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	**M1**	**N/A**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**M1**	**C**
D-3	Proportion of aid that is managed by use of national procedures	**M1**	**C**

Note: Standard indicators under PEFA methodology.

Section 1. Introduction

1. The National Development Plan (*Plan Nacional de Desarrollo*) highlights the Bolivian Government's interest and concern in improving the efficiency, transparency, and accountability in the use of public resources. To this end, public financial management (PFM) quality is a key element in support of the implementation of policies and the attainment of development objectives, contributing to fiscal discipline, supporting the strategic allocation of resources and efficient service delivery. On the basis of this concept, the Government has implemented some major initiatives to strength and improve different PFM aspects, including its first self-assessment of public finance using the Public Expenditure and Financial Accountability (PEFA) framework methodology—although with a more limited scope than in this review.

1.1 Objective of the PFM Performance Report

2. This PFM review of Bolivia's central government pursues two major objectives:

(a) Providing the Government of Bolivia with a reliable and objective diagnosis on performance of PFM systems, processes, and institutions, using an internationally accepted framework that is based on 31 high-level indicators (28 measuring the condition of the PFM systems and 3 measuring the performance of donor practices in terms of their impact on the government's budgetary processes); and

(b) Providing the Government of Bolivia, international organizations, and other stakeholders with a common source of information on the central government's PFM performance, identifying strengths and weaknesses while at the same time providing feedback on the results of various actions and initiatives carried out in recent years regarding PFM systems.

3. On the basis of this diagnosis, it will be possible to identify opportunities for improvement and initiate a dialogue to set priorities, as well as their adequate implementation sequence. In turn, having a reform plan can contribute to medium-term objectives designed to promote an improved management of public finance in the framework of the changes and adjustments being implemented by the Government under the new Political Constitution, approved in February 2009.

4. This review is not intended to assess specific Government institutions. Likewise, it does not include comments on the fiscal policy or the expenditure policy, nor does it focus on issues of institutional capacity. Consistent with the PEFA approach, it does not provide any recommendations.

1.2 PFM Performance Indicator Preparation Process

5. The process of preparing for the evaluation of PFM performance began in 2007, when the authorities of the then Ministry of Finance, expressed their interest in implementing a review following the PEFA framework. In the context of such an initiative, and under the leadership of the Vice Ministry of the Treasury and Public Credit (*Viceministerio de Tesoro y Crédito Público, VTCP*), the World Bank facilitated a two-day workshop that was attended by authorities and technical staff of the Ministry of Economy and Public Finance (*Ministerio de Economía y Finanzas Públicas, MEFP*), the Ministry of Development Planning, the Central Bank of Bolivia,

the Auditor's General Office, and other public entities. The workshop was aimed at introducing the PEFA framework, the usefulness of the tool, the areas that it comprised, and the indicator system, in addition to exchanging views on the experience of other countries that had conducted similar efforts.

Bolivia's self-assessment of public financial management and action plan

6. Recognizing the usefulness of the tool, the Government of Bolivia carried out a self-assessment of public financial management without the participation of international cooperation. The first phase of the 2007 Public Finance Review (*Evaluación de las Finanzas Públicas*, *EFIP*) was conducted between March and April 2008. Since it constituted the Government's first experience in such an exercise, it basically concentrated on the central administration and the data from the National General Treasury (*Tesorería General de la Nación*) for FY2007,[1] without including the indicators referring to donor practices. It should also be noted that no score was assigned to some dimensions.

7. Based on the results of the first evaluation and with the growing interest of the MEFP authorities in extending the depth of the analysis, a second phase of the work was carried out in September and October 2008. The objective of this second phase was to evaluate the results of indicators that in the first evaluation had revealed some weaknesses and to develop an action plan based on that review. Under these specifications, the second phase review focused on nine indicators considered critical, having had the lowest scores in the first phase. This second phase review also formed the basis for the action plan.

8. The resulting action plan was formulated around four strategic objectives:

(a) Providing authorities with available and updated information for decision-making through the implementation of the information technology strategic plan;

(b) Consolidating the fiscal policy, improving the quality of expenditure (current and capital), and optimizing public revenue;

(c) Active and propositional participation of the MEFP in the new fiscal structure derived from the autonomic process; and

(d) Updating and modifying the effective regulatory framework, in accordance with the new state structure and social demand.

9. Although the results of the 28 indicators evaluated were organized around these 4 objectives, the specific actions aimed only at those indicators with a C or D score and were strictly limited to attempting to comply with the requirements for a better score. Nevertheless, these actions are not derived from a more comprehensive analysis considering, for example, the relative importance of each issue, the complexity and the time required to achieve improvements in each PFM element, and the interdependence with other elements, including the need for supplementary analyses to understand the root causes that may have affected performance in certain areas.

[1] The decision to base the 2007 EFIP primarily on data from the National General Treasury was due to a certain extent to technical and logistic limitations.

The review process

10. Starting from the basis of work carried out by the MEFP and with the purpose of strengthening the self-evaluation exercises with a broader, external and independent approach, the Government of Bolivia decided to conduct a new evaluation, as a joint effort of the Government of Bolivia, the Word Bank and the Inter-American Development Bank (IDB), with the participation and cooperation of other agencies at various stages.[2]

11. Based on the request received from the Government of Bolivia in March 2009, coordination and preparation activities were initiated with the Vice Ministry of the Treasury and Public Credit through the General Directorate of Fiscal Policy and Analysis. The activities included (a) definition of the scope of work; (b) identification of the various entities, departments, and units that needed to participate in the study; and (c) a schedule of activities and agenda for the field mission. It is notable that this preparation work significantly benefited from the experience that the VTCP authorities and staff had developed in the EFIP self-assessment process.

12. The field mission that extended from May 18 to June 5, 2009, included the following activities:

(a) A two-day launching workshop facilitated by the PEFA Secretariat, which was attended by officials from several directorates and units of the Ministry of Economy and Public Finance, Ministry of Development Planning (*Ministerio de Planificación del Desarrollo*), the Auditor's General Office (*Contraloría General del Estado, CGE*), the National Tax Service (*Servicio de Impuestos Nacionales*), the National Customs (*Aduana Nacional de Bolivia*), the Central Bank of Bolivia (*Banco Central de Bolivia*), the Congressional Finance Committee, and representatives of international cooperation. The workshop's main aim was to present the basic elements of the methodology and their application, report structure, adequacy and submittal of evidence, usual difficulties in applying the methodology, and the role of government and international cooperation.

(b) Information and data gathering and exchanges with all institutions involved in the study, including both entities directly involved in the establishment and regulation of the PFM system and entities that are responsible for the execution of expenditure. All participating officials in the study demonstrated a high level of commitment, interest, and collaboration, and the VTCP provided highly efficient coordination.

(c) Start and end of mission meetings with the international cooperation, representatives of which also participated in the fieldwork in their areas of interest.

13. On the basis of the field mission, the PEFA team began preparing the draft report. The drafting also included ongoing exchanges with the General Directorate of Fiscal Policy and Analysis and other units involved in reviewing and supplementing information, exchanging views on the methodology, confirming data, and refining the understanding of processes and procedures, as well as complementing the work with additional information.

14. The draft report was sent to the Government and the PEFA Secretariat for their review and comments. To this end, a field mission was carried out from September 7 to 17 to review and

[2] In parallel with the PEFA exercise, an evaluation of the procurement systems is being carried out, using the OECD-DAC indicators, led by the IDB.

discuss the report with the relevant authorities and technical and operational units of the Government of Bolivia.

15. Based on the results of this mission, the report was completed, with the final comments of the Government and the PEFA Secretariat prior to its final release. The Government will lead a series of discussions aimed at preparing a PFM strengthening action plan.

1.3 Methodology for the Preparation of the Report

16. This PEFA review was started in April 2009 and included a field mission between May 18 and June 5, 2009. Additionally, a follow-up mission was carried out in the first fortnight in September. The agenda of meetings and officials interviewed was directly coordinated with the General Directorate of Fiscal Policy and Analysis of the VTCP. An official of the General Directorate attended all meetings and interviews. In advance of the field mission and in order to facilitate the process of information gathering, the VTCP shared with all the relevant institutions the questionnaire developed by the PEFA Secretariat for the application of the PEFA framework in the field.[3] The review included:

- Review of legal documentation governing public finances and others that could have an impact on PFM.
- Review of related reports developed in recent years on PFM, both by the Government and by other international cooperation agencies.
- Analysis of the main requirements, policies and practices of the PFM system in Bolivia, including: (a) meetings with government officials in the MEFP, Ministry of Development Planning, Auditor's General Office, National Tax Service, National Customs of Bolivia, National Congress (Finance Committees), and a sample of expenditure execution entities;[4] (b) meetings with officials of the major cooperation agencies, including Andean Development Corporation (*Corporación Andina de Fomento, CAF*), European Union, IDB, KfW, Germany, GtZ, and World Bank; (c) meetings with other stakeholders such as the Confederation of Private Businessmen, the Chamber of Commerce; (d) quantitative analysis of official budgetary and financial information; (e) review and evaluation of regulatory and legal documentation; and (f) review and understanding of the different information systems—in aspects strictly connected with the required information.
- Consultations with the PEFA Secretariat regarding the application of the methodology in specific cases.

Special Considerations on the EFIP

17. An important element in conducting this study was the MEFP-conducted self-assessment, (the characteristics described in the previous section), the results of which were taken into account in this review exercise within the framework of the following considerations.

18. The scope of the EFIP focused on the central administration and National General Treasury resources for FY2007, due to the readily availability of data. In this PEFA review, the analysis included the central government (central administration and decentralized entities), with all the

[3] Questionnaire for the field application of the PEFA framework to measure PFM performance.
[4] Annex 7 includes a detail of the entities visited and the officials interviewed.

National General Budget (*Presupuesto General de la Nación*) sources of financing for FY2006, FY2007 and FY2008, in the case of indicators that require three years of data.

19. The EFIP mostly worked with MEFP stakeholders. In some cases this limited the availability of information and interaction with other technical and operational stakeholders involved in the execution of expenditure, not only in terms of supply of information but also because they are critical stakeholders in the operation of the PFM systems. In some cases, certain dimensions could not be evaluated because some information was not available. This also affected the full application of the scoring methods established in the PEFA methodology.

20. Aiming to enrich of the breadth of this review, and in accordance with requirements of the methodology, entities such as National Customs of Bolivia, National Tax Service, and Auditor's General Office with its technical Deputy Comptrollerships of External Audit and Internal Control were included in the review process. Also included were the Internal Audit Units and Financial Directorates of a cross-section of entities in the central and decentralized administration, in addition to two municipal governments and one prefecture, for the specific purpose of certain indicators.

Contribution of the review

21. The experience acquired with the EFIP exercise, strengthened by a broader interaction process among the various technical and operational units and an external team, made it possible to significantly enrich the analysis of each area that the indicators are designed to evaluate. Improvement in many cases was evident in the quality of the evidence and data used not only to support the proposed scores but also to initiate thinking about opportunities for future improvement and strengthening.

22. The analysis process of this review had greater depth, was comprehensive, and strictly bound by the requirements of the methodology. The results, as translated into scores proposed for the various indicators, differ with results reflected in the EFIP. The reasons for these differences range from the coverage applied, the period under analysis, the availability of data and information based on the involvement of a broader range of stakeholders, and, in some cases, the application of the methodology.

23. However, beyond the differences detected in the individual scores, this exercise most importantly provides Bolivia with a diagnosis document that is analytical and objective. Its application of the methodology was validated by different stakeholders. The review can serve as a basis to initiate a broader dialogue with the various PFM stakeholders, including international cooperation, with a view to preparing a strengthening and reform action plan.

1.4 Scope of the Assessment as Provided by the PFM Performance Indicators

24. The evaluation focuses on the public expenditure and revenue of the central government that, in accordance with the administrative structure prevailing in Bolivia, includes the central administration, the decentralized institutions without business purposes, and the social security entities. Although it excludes the prefectures, municipalities, and state companies (financial and non-financial), it does include the transfers that are received by such institutions from the central government in the case of certain indicators (PI-7). Hence, this evaluation covers approximately 47 percent of the total public sector expenditure, in accordance with the (aggregate) expenditure budget approved for FY2009. Table 1.1 provides a summary of the expenditure of the public

sector structure, indicating the share of expenditure of each of these levels in the total public sector budget. This evaluation covers FY2006, FY2007 and FY2008.

Table 1.1 Number of Entities and Share of Public Expenditure, according to 2009 Budget

Public sector entities	*Number of entities*	*% of aggregate public expenditure*
NON-FINANCIAL PUBLIC SECTOR	468	97
Central government	**103**	**45**
Central administration	*24*	*39*
Decentralized public institutions	*79*	*6*
Territorial administration	**336**	**15**
Departmental prefectures	*9*	*9*
Municipalities *	*327*	*6*
Social security institutions	**5**	**2**
Non-financial public companies	**24**	**35**
FINANCIAL PUBLIC SECTOR	4	3
Non-banking financial institutions	**3**	**1**
Banking financial institutions	**1**	**2**

* Includes only transfers made by the Central Government.

Section 2. General Country Information

25. With a population of 9.7 million inhabitants and an area of 1.1 million square kilometers, Bolivia is one of the poorest and most unequal countries in Latin America—6 out of each 10 Bolivians are poor and 4 are extremely poor. The per capita income in 2008 was US$1,480 per year. The richest population, comprising 10 percent of the total population, receives more than 40 percent of the total income.

2.1 Bolivia's Economic Situation

2.1.1 Country Context

26. In the second half of the 20th century, Bolivia's real per capita income remained stagnant due to recurrent crises that reversed most progress attained in the periods with a better economic performance—generally linked to increases in prices for raw materials. In recent years, Bolivia has once again benefited from high commodity prices (including natural gas, its main export product), as well as by the start-up of major mining projects and a significant increase of remittances from abroad. These factors caused a rapid growth of the GDP (6 percent in 2008), large current account surpluses (12 percent of GDP), and unprecedented fiscal surpluses (3 percent of GDP). In this context, however, the increase of international food prices as well as adverse climate events drove inflation to around 12 percent during 2007 and 2008, after having remained at a single-digit for close to 15 years.

27. This context was partially reversed at the end of 2008 as a result of the global crisis triggered by the United States mortgage market, which caused a major fall in the international commodity prices, mainly as from September 2008. Growth slowed down—the GDP grew by 2.2 percent in the first quarter of 2009 over the same period in 2008—and the current account surplus dropped from US$554 million in the first quarter of 2008 to US$134 million in the first quarter of 2009. But on the other hand, the inflationary pressures have abated, causing the 12-month inflation rate to drop to 2.1 percent in June 2009. In this context, the Government has planned an ambitious anti-cyclical fiscal program, putting special emphasis on increasing public investments to mitigate the effects of the international crisis. Although this program has yet to be fully implemented, the recent recovery of international prices of some export commodities may allow for faster growth recovery than initially expected.

28. In the longer term, however, Bolivia needs to attain a higher and sustained growth path to have greater impact on poverty reduction. Thus, it needs to reduce its dependency on the extractive industries that, by generating little employment, have a limited impact on poverty reduction. It is also necessary to increase the pace of investment, including private investment, still at modest levels (7.5 percent of GDP in 2008) and incompatible with high economic growth. On the other hand, although in the last decades there has been important progress in terms of access to public services, malnutrition and mother and child mortality are among the highest in the region; malaria, Chagas, and tuberculosis are still of concern; and broad segments of the population continue to lack efficient access to basic services such as water, sanitation, and electricity. Likewise, the improvements achieved in these fields have not been equitably distributed across the population; for example the under-5 mortality rate in 2003 for the poorest quintile was 94 deaths per each 1,000 born live while the figure for the richest quintile was 31

per 1,000. Similarly, 42 percent of the indigenous children face stunted growth, almost doubling the levels of their non-indigenous peers.

2.1.2 Global Public Sector Reform Program

29. In May 2006, the Government launched its National Development Plan (*Plan Nacional de Desarrollo*) with a strong focus on improving poverty reduction and inclusion. The Plan is based on four pillars: (a) Productive Bolivia, (b) Dignified Bolivia, (c) Sovereign Bolivia, and (d) Democratic and Participatory Bolivia.[5] The National Development Plan proposes greater government participation in key sectors such as hydrocarbons, mining, telecommunications, and energy. It further proposes increasing government participation or nationalizing previously privatized enterprises, and channeling additional resources generated by this stated participation into labor-intensive sectors such as manufacturing, tourism, and agriculture, or into additional financing for social programs. The subsequent increase in fiscal revenue has allowed for the implementation of several social programs, including *Bono Juancito Pinto*, a conditional cash transfer program tied to school attendance; *Renta Dignidad*, a non-contributory improved pension for the elderly based on the previous *Bonosol*; and *Yo Sí Puedo*, an adult literacy program. Furthermore, the Government has launched its ambitious Zero Malnutrition Program to be implemented in the most vulnerable municipalities and the Integrated Social Protection and Community Development Networks Program that will integrate social assistance to vulnerable groups and productive development in rural and peri-urban areas.

30. In addition, the Government is developing an extensive program to eradicate extreme poverty, creating multi-sectoral initiatives to be implemented in the most vulnerable municipalities. The Government expects to start implementing this strategy in the next few months.

31. An adequate administration of the public sector has been fundamental for the development of Bolivia, but there still remain significant challenges associated with distribution of hydrocarbon revenues across prefectures and municipal governments, the unequal access to public services by citizens from different social backgrounds or geographic locations that continues to severely restrict their inclusion, and a weak accountability by the administration towards citizens, generating opportunities for corruption. The public sector would benefit from a greater capacity to set priorities; design, coordinate, and execute programs; and provide public services. Improvements in these areas will be essential to pursue a longer-term strategy. The Government of Bolivia has recently provided strong signals of beginning to address these issues, such as the creation of a new Ministry of Institutional Transparency and Fight Against Corruption with the mandate of applying a zero-tolerance policy against corruption established in the National Development Plan.

2.1.3 Rationale for PFM reforms

32. Bolivia is undergoing a profound change process at the political, economic, and social levels that have created high expectations in the population. In order to adequately support the implementation of Bolivia's selected development policies and programs, adequate PFM

[5] This section draws on the World Bank's Interim Assistance Strategy for the Multinational State of Bolivia for the period 2010-2011.

systems are required. These requirements include PFM processes and institutions to ensure that budget planning and execution is in line with the Government's priorities, that the administration of the budget's resources contributes to efficient service delivery, and that an effective oversight of budget execution and fiscal risk ensures the maintenance of aggregate fiscal discipline.

33. With the enactment of Bolivia's new Political Constitution in February 2009, the Government intends to carry out a series of reforms of the public sector. These reforms include adjusting and updating the legal framework that governs PFM to adapt it to the new regulations governing the country. This effort is being lead by the MEFP in close coordination with related institutions in the central administration and decentralized, municipal, and regional administrations.

34. This adjustment of the legal framework creates the need and the opportunity to strengthen the processes, practices, and instruments to improve PFM performance based on the Government's priorities. It is important that the proposed reforms are conceived on the basis of the analysis and consideration of other factors—political, legal, administrative, cultural, and those related to institutional capacity—to allow for reform priorities to be identified within a broader framework in the government's agenda.

2.2 Description of Budgetary Outcomes

2.2.1 Fiscal Performance

35. In recent years, the general government revenues increased by 2 percentage points of GDP, as seen in Table 2.1, mainly due to the increase in the collection of the Direct Tax on Hydrocarbons (*Impuesto Directo a los Hidrocarburos, IDH*) driven by the rising export price of natural gas and in spite of a certain reduction in grants. On the other hand, the general government's primary expenditure has also begun to rise, particularly in the last two years—with a strong expansion in different social programs, and a substantial push in public investment. However, partly thanks to the debt cancellation in the framework of the Multilateral Debt Relief Initiative, the debt interest went down by 2 GDP percentage points, offsetting the increase in primary expenditure. That, in addition to a strong surplus in state companies (as a result of substantial government transfers that were not fully executed), has resulted in a strong surplus for the non-financial public sector, that averaged slightly over 3 percent of GDP per year between 2006 and 2008.

Table 2.1 General Government Operations and Public Sector Outcome, 2005-2008

	2005	***2006***	***2007***	***2008***
	Percent of GDP			
Revenue	30.4	32.7	32.8	32.7
Tax	25.1	27.8	3.3	28.5
Non-tax	3.1	3.0	3.3	3.0
Grants	2.1	1.8	1.6	1.2
Primary expenditure	30.0	27.4	29.2	32.0
General Government Primary Outcome	0.4	5.3	3.5	0.8
Interests	2.7	1.8	1.3	0.8
Economic Outcome General Government	-2.3	3.5	2.3	0.0
External Financing	2.2	-0.1	0.6	1.0
Domestic Financing	0.1	-3.4	-2.9	-1.0
Memo: Economic Outcome				
Non Financial Public Sector	-2.2	4.5	1.7	3.2

Source: MEFP (Dossier)

36. The fiscal surpluses have made it possible to accumulate public sector balances, especially in the Central Bank of Bolivia—and thus the balance of public sector deposits in the financial system increased from US$0.9 billion at the end of 2005 to US$3.0 billion at the end of 2008. Likewise, the fiscal outcomes described above have allowed the domestic debt of the National General Treasury to drop from 21 percent of GDP at the end of 2005 to 16.1 percent in 2008, while the external debt balance has been substantially reduced as a result of the Multilateral Debt Relief Initiative, from 51.9 percent of GDP in 2005 to 14.2 percent in 2008.

2.2.2 Allocation of Resources

37. In the last three years, the expenditure in personnel services reduced its relative share in public expenditure (Table 2.2). On the other hand, the drop in the level of both domestic and external debt coupled with GDP growth has caused a reduction in public debt service. On the other hand, transfers have significantly increased due to the bigger role that the current administration wishes to play in economic activity—most of these transfers were targeted at the state hydrocarbons company, *Yacimientos Petroliferos Fiscales Bolivianos* (*YPFB*).

Table 2.2 General Government Expenditures per Economic Classification, 2005-2008

	Percentage			
	2005	**2006**	**2007**	**2008 p**
Current expenditure	**69.2**	**64.5**	**61.5**	**66.6**
Primary (non-financial)	**61.1**	**58.4**	**57.3**	**64.3**
Personnel services	*31.1*	*31.7*	*30.0*	*26.6*
Goods and services	*6.6*	*6.9*	*6.5*	*6.8*
Transfers	*19.8*	*18.9*	*17.9*	*30.1*
Others	*3.6*	*0.8*	*2.9*	*0.8*
Interests	**8.1**	**6.1**	**4.2**	**2.4**
Capital expenditure	**30.8**	**35.5**	**38.5**	**33.4**
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**

Source: MEFP (Statistical Dossier 2009)
Note: p = preliminary

Table 2.3 Central Administration Expenditure Structure per Main Functions

	% of total expenditures effectively paid	
	2007	**2008**
General Public Services	53.6	58.9
Defense	5.1	5.4
Public Order and Security	5.5	4.7
Economic Affairs	12.1	6.8
Environmental Protection	0.5	0.3
Housing and Community Services	0.2	1.1
Health	2.2	2.0
Recreation activities, Culture and Religion	1.2	0.4
Education	6.8	6.5
Social Protection	12.9	14.1
Total	100.0	100.0

Source: MEFP (Statistical Dossier 2009)

2.3 Description of the Legal and Institutional Framework for PFM

2.3.1 PFM Legal Framework

38. The PFM legal framework in Bolivia is derived from the State Political Constitution, both the previous and the currently effective one, approved in February 2009. Both constitutional texts

assign roles and responsibilities to the Legislative Branch, the Executive Branch, and the Auditor's General Office in key aspects for PFM, mainly referring to the process of budget formulation and approval and its amendments, approval of public debt, and control and oversight over state agencies and public institutions, including state companies.

39. The constitutional mandate framework includes Law No. 1178 of Government Administration and Control (SAFCO Law) dated July 20, 1990. Still in force, the SAFCO Law regulates the administration and oversight systems of government revenues and their relation with the national public investment and planning systems, with the objective of (a) programming, organizing, executing, and controlling the effective and efficient collection and use of public revenues for the implementation and timely adjustment of public sector policies, programs, service delivery, and projects; (b) availability of useful, timely, and reliable information ensuring the reliability of financial statements and reports; (c) full accountability of all public servants, regardless of their hierarchy, for their actions not only in connection with the objectives pursued with the public resources entrusted to them, but also for the manner and outcome of their application; and (d) developing the capacity to prevent or identify and verify the improper management of state resources.

40. The SAFCO Law establishes and regulates eight systems to program, organize, execute, and control public sector management: (a) operations programming; (b) administrative organization; (c) budget; (d) personnel management; (e) administration of goods and services; (f) treasury and public credit; (g) integrated government accounting; and (h) governmental control, consisting of internal control and ex post external control. Box 2.1 summarizes the main regulations applicable to each of these systems.[6]

Box 2.1 PFM Legal Framework

Operations programming

R.S. No. 225557, Basic Standards of the Operations Programming System, December 1, 2005.

Administrative organization

Basic Standards of the Administrative Organization System

Budget

Law No. 2042, Budget Administration Law, of December 21, 1999.
Supreme Resolution No. 225558, Basic Standards of the Budget System, December 1, 2005.
Supreme Decree No. 29881, Regulations on Budget Amendments, January 7, 2009.
Supreme Decree No. 27849, New Standards for Budget Amendments, November 12, 2004.

Personnel management

Supreme Decree No. 26115, Basic Standards of the Personnel Management System, March 16, 2001.

Administration of goods and services

Supreme Decree No. 29190 of July 11, 2007.

Treasury and public credit

Supreme Resolution No. 218056, Basic Standards of the Treasury System, July 30, 1997.
Supreme Resolution No. 218041, Basic Standards of the Public Credit System, July 29, 1997.
Supreme Decree No. 29141, Institutional and Financial Performance Program (*Programa de Desempeño Institucional y Financiero,* PDIF), May 30, 2007.

Integrated government accounting

[6] A detailed list of the legal regulations reviewed for this review is included in the References section.

Supreme Resolution No. 222957, Basic Standards of the Integrated Accounting System, March 4, 2005.
Supreme Resolution No. 227121, Amendment of Section 40, Basic Standards of the Integrated Accounting System, January 31, 2007.

Government oversight

Supreme Decree No. 23215, Regulations for the Exercise of the Powers of the Auditor's General Office, July 22, 1992.

Decentralization

Law No. 1654, Law of Administrative Decentralization, July 28, 1995.
Law No. 1551, Public Participation Law, April 20, 1994.
Law No. 2028, Law of Municipalities, October 28, 1999.

Public investment

Supreme Resolution No. 216768, Basic Standards of the National Public Investment System, June 18, 1996.

Taxes and duties

Law No. 1990, General Customs Law, July 28, 1995.
Law No. 2492, Bolivian Tax Code, August 2, 2003.
Supreme Decree No. 27310, Regulations of the Bolivian Tax Code, January 9, 2004.

Transparency and public information access

Supreme Decree No. 27329, Transparency and Access to Government Information, January 31, 2004.

41. The regulations connected with the administration and control systems are applied in all the public sector institutions without exception, including departmental governments; universities; municipalities; institutions, agencies, and companies of the national, departmental and local governments; and any other legal entity where the state holds a majority interest.[7]

42. As at the date of this review, the Government of Bolivia was beginning the process to reform the PFM legal framework, by preparing a new Public Management Law to which end each of the respective institutions have begun working to update or adjust the basic standards.

2.3.2 PFM Institutional Framework

43. Chapter IV of Law 1178 sets out the institutional responsibilities related to the operation of the administration and oversight systems. The Ministry of Finance (the current MEFP) is defined as the fiscal authority in charge of operations programming, administrative organization, budget, personnel management, administration of goods and services, treasury and public credit, and integrated accounting systems. In turn, the Comptrollership General of the Republic (the current General State Comptrollership) is appointed as head of the government oversight system. Both the MEFP and the CGE have powers to issue the basic standards and regulations for each system, and to oversee the adequate operation of the same.

44. Within the framework of the new State Political Constitution, Supreme Decree No. 29894, dated February 7, 2009, establishes the organizational structure of the Executive Branch of the Multinational State. Based on that document, the functions of the MEFP regarding PFM include (a) formulate the macroeconomic policies within the framework of the General Plan for Economic and Social Development; (b) formulate, program, execute, control, and evaluate fiscal and financial policies; (c) act as fiscal authority and set public management regulations. In

[7] Section 3 of Law 1178 on Government Administration and Oversight.

exercising these and other powers, the MEFP is supported by the following agencies within its purview:

- ***Vice Ministry of Budget and Fiscal Accounting*** includes four general directorates: (a) Budget Programming and Management; (b) Fiscal Accounting; (c) Public Management Standards; and d) Fiscal Information Management Systems. The main functions assigned to it include:
    - Design, formulate, and develop public management standards;
    - Define policies for budget formulation within the macroeconomic and fiscal framework and develop the general state budget bill and its amendments;
    - Conduct the control, monitoring, collection, analysis, and evaluation of budget execution for in-year decision-making purposes;
    - Regulate the issue and reporting of public sector financial statements;
    - Evaluate the quality of public expenditure and the degree of compliance with the public sector's objectives and targets.

- ***Vice Ministry of Treasury and Public Credit*** includes four general directorates: (a) Public Credit; (b) Treasury Programming and Operations; (c) Territorial Administration and Finances; and (d) Fiscal Analysis and Policy. Their main functions include:
    - Formulate, program, execute, control, and evaluate fiscal policies in coordination with other MEFP areas;
    - Conduct an analysis of the impact of fiscal policies proposed and implemented by the government in the fiscal program;
    - Control the domestic and external public debt, and program its service;
    - Administrate allocate, and control the revenues and fiscal resources to program budget execution;
    - Centralize information on public servants' payroll, income, and pensions;
    - Develop and implement regulations for management, administration, and control of indebtedness at the subnational level.

45. Other line ministries and branches of government play important functions in PFM:

- ***Vice Ministry of Strategic and Multi-annual Planning (under Ministry of Development Planning) --*** formulate the middle- and long-term fiscal and budget policy expressed in the Multiannual Fiscal Macroeconomic Framework (in coordination with the pertinent ministries); develop fiscal policy and multi-annual budgetary programming instruments; and identify financing requirements for sectoral, territorial, and national development.

- ***Vice Ministry of Public Investment and External Financing (under Ministry of Development Planning) --*** design investment and financing policies for development, as well as their monitoring and evaluation.

- ***Auditor's General Office*** is defined by the new Political State Constitution as the technical institution responsible for the function of supervision and ex post external oversight of public entities and those in which the state holds an equity or economic interest, also including acquisition, management, and disposal of strategic goods and services for the collective interest. The Auditor's General Office has functional, financial, administrative, and organizational autonomy, and has to report annually on its oversight of the public sector to the Multi-national Legislative Assembly.[8]

- ***Legislative branch*** -- In accordance with the authority granted by the new Constitution, the Plurinational Legislative Assembly (consisting of the Chamber of Deputies and the Senate) (a) approves the social and economic development plan; (b) approves the contracting of loans; (c) approves the General State Budget submitted by the Executive Branch; and (d) controls and oversees state agencies and public institutions and explicitly state-owned enterprises, which includes entities with mixed capital and in which the state holds an economic interest.[9] In general, these powers are similar to those contemplated in the previous Constitution.

- ***Judiciary*** is independent from the Executive Branch; in connection with PFM, it is the body responsible for dealing with those cases where the Government is a defendant or a plaintiff for economic damages (e.g., cases in which the Auditor's General Office determines there is civil or criminal liability as a result of economic damages to the state).

2.3.3 Essential Attributes of PFM

46. As part of Bolivia's PFM legal and institutional framework, it is important to highlight some aspects that help to understand some of the operating characteristics of PFM, which were also considered in the analysis of the indicators.

47. ***Subnational governments.*** In the course of the last 15 years, Bolivia has carried out an in-depth decentralization process, with an increasing devolution of responsibilities to the subnational levels (prefectures and municipal governments). In terms of PFM, the subnational levels are subject to the same rules and regulations established for the central government, except that the total budget of the municipal governments is not included in the National General Budget. However, it has not been possible to implement the instruments and mechanisms designed for the central level, for example in terms of systems, to the same extent especially at the municipal level. Thus most municipalities, medium and small, still use information systems that do allow for the recording and development of budgetary and financial information but have certain limitations, in many cases affecting the timely and reliable reporting of information to the central level.[10]

48. ***Institutional groups.*** From the point of view of financial management, the following institutional groups play a role in PFM:[11]

- ***Central administration*** is formed by the state ministries, administrative units of the Legislative Branch and the Judiciary, the National General Treasury, and others defined by law.

- ***Non-profit decentralized public institutions***, consisting in legal entities, holding their own assets, and independent budget and management autonomy; and reporting to a sectoral ministry.

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[8] Previously, the report on the work of the Auditor's General Office was submitted to the President.
[9] New Political Constitution of the State, Second Part, Title I, Chapter One.
[10] Although the subnational level is not comprised in the scope of this review, certain characteristics and limitations affecting the subnational levels were considered in the framework of performance indicators IP-7 and IP-9.
[11] Basic Standards of the Integrated Accounting System, Section 3, Public Sector Structure and Financing.

- ***Departmental prefectures*** represent the Executive Branch at the departmental level, in accordance with an administrative decentralization regime that basically consists in the transfer and delegation of powers of a technical and administrative nature.
- ***Municipalities,*** which are autonomous entities organized for public purposes and with their own legal standing and equity, are dedicated to covering the needs of the community. They collect revenue from municipal taxes, tax sharing, and other encumbrances.
- ***Public universities*** provide higher education services, and are self-governing.
- ***Social security institutions*** include the Health Boards (*Cajas de Salud*) and are financed with employer contributions.
- ***Non-financial state enterprises*** are formed by public companies where the state owns a majority of the equity.
- ***Financial state enterprises***, including non-banking entities that engage in credit activities for the economic-social development of certain public and private sectors; and banking entities, basically referring to the Central Bank of Bolivia.

49. The ***Integrated Administrative Management and Modernization System*** (*Sistema Integrado de Gestión y Modernización Administrativa, SIGMA*) is the main instrument for public funds management, administration, and control. Commissioned as of FY2001, SIGMA includes financial modules (financial programming, budget, accounting, and treasury) and administrative modules (personnel, small purchases, and warehouses. However, only the financial modules are of mandatory use, for which reason the implementation of the administrative modules has been delayed. The central SIGMA, in turn, has been complemented with the so-called local SIGMA that is being implemented mainly in municipalities (departmental capitals), prefectures, universities, and other entities. Currently, SIGMA (both central and local) provides coverage for approximately 85 percent of the total expenditure budget.

50. ***Treasury Single Account.*** In parallel with the implementation of SIGMA, the operation of the Treasury Single Account (*Cuenta Única del Tesoro*) was initiated in the Central Bank of Bolivia for the orderly management of all public sector funds originating from tax, non-tax, own credit sources, or any others. It is currently operated through a local currency (Bolivians) Treasury Single Account and a US dollar Treasury Single Account, centralizing all accounts of the National General Treasury. On the other hand, when the local SIGMA is implemented, the use of Single Institutional Accounts is initiated (at the municipal, prefecture or university level).

Section 3. Assessment of PFM Systems, Processes, and Institutions

51. This section presents the detailed analysis of the essential PFM elements in line with the criteria and minimum requirements of each indicator. To that end, included is a brief description of the legal framework and the processes, procedures, and practices adopted by the Government of Bolivia. To the extent possible, the analysis includes quantitative data and other qualitative information in support of the proposed scores in accordance with the criteria of the PEFA methodology. The Performance Indicators (PI) are evaluated using a scoring scale of A to D, in accordance with the scoring methodology in the PEFA framework. In each case, a table is included summarizing the scores and detailing the scoring method used-–Method 1[12] or Method 2.[13]. Annex 5 shows a description of the scores for each indicator. In addition, it is important to take into account the considerations described in Section 1.3 in connection with the EFIP.

3.1 Budget Credibility

52. This group of indicators assesses the realism with which the budgets were prepared and the degrees of implementation as compared to the initial forecasts, through four indicators: (a) aggregate expenditure out-turns, (b) deviations in expenditure composition, (c) aggregate revenue out-turn, and (d) stock and follow-up of expenditure payment arrears.

PI-1 Aggregate expenditure out-turn compared to original approved budget

53. This indicator, PI-1, and PI-2 were evaluated based on official information supplied by the MEFP-based Vice Ministry of Budget and Fiscal Accounting. Pursuant to requirements of the PEFA framework methodology, only primary expenditure is included (excluding expenditure in interests, in addition to repayments) and excluded is central government expenditure financed with foreign funding (grants and loans), independently from whether it is reported through SIGMA or another information system.

54. To measure the out-turns the original approved budget is compared to the amount effectively executed (paid) for the last three fiscal years completed (i.e. 2006, 2007 and 2008). Tables 3.1 and 3.2 summarize the results for indicators PI-1 and PI-2, and the details of the information used for the calculations are presented in Tables A1.1 to A1.4 in Annex 1.

(i) Difference between executed primary expenditure (paid) and primary expenditure as originally budgeted

55. As shown in Table 3.1, the out-turn of the aggregate primary expenditure (in accordance with the previously indicated coverage) effectively executed (paid) and the original approved

[12] Method 1 is used for all indicators with a single dimension and for the indicators with multiple dimensions when it is likely that unsatisfactory results in one dimension are detrimental to an adequate performance outcome in other dimensions of the same indicator. Consequently, the overall score will be based on the weakest link of the dimensions associated with the indicator and in that sense, the lowest score assigned to each dimension should be chosen, adding "+" when any of the remaining dimensions achieves a higher score.

[13] Method 2 is based on the average of the scores for the various indicator dimensions and is applied to multidimensional scores when a low score in one indicator dimension is not necessarily detrimental to the outcome of a higher score in another dimension. The conversion table available in the PEFA Guidelines is utilized to calculate the average.

budget was less than 10 percent in the three years under consideration, although greater than 5 percent in two of them. Both in 2006 and 2007, the amount executed was less than the original budget, while in 2008 it was higher. Notably, the out-turn has increased through the years, from 4 percent in 2006 to around 11 percent in 2007 and 2008.

Table 3.1 Original Approved Primary Expenditure, Amended and Executed Budget

Year	*Millions of Bolivians*			*Percentage out-turns (%):*		
	Original budget (a)	*Amended budget* (b)	*Effectively paid* (c)	(b)/(a)	(c)/(b)	(c)/(a)
2006	23,025.1	27,057.4	22,121.2	17.5	-18.2	-3.9
2007	27,283.7	29,679.9	25,199.8	8.8	-15.1	-7.6
2008	32,703.3	52,440.8	37,651.3	60.0	-28.1	15.1

Note: Budget figures exclude expenditure financed with external resources.
(b)/(a) Percentage of increase over the original budget due to budget amendments
(c)/(b) Percentage of execution vs. amended budget
(c)/(a) Percentage of execution vs. original budget
Source: Table 1.A, Annex 1. General Directorate of Fiscal Accounting.

56. This relatively low discrepancy reflects two divergent factors that tended to offset each other. On the one hand, in the three years under review, there were budget increases averaging 29 percent per year—strongly influenced by the significant budget increase in 2008. However, the rate of execution between the increased budget and the budget effectively executed was 20 percent on average. Part of this compensation was due to the fact that the substantial budget increase of 2008 was approved in the last months of the year, which did not allow for its full execution, and thus was reflected as a low rate of execution regarding such increases.[14] It would seem that revenues above the forecasted level for several years (as seen in the analysis of PI-3) encouraged a strong pressure to substantially increase the 2008 budget.

57. The result was also affected by the accrued expenditure unpaid with resources out of the year's budget, which was around 4 percent per year; these were proportionally higher in the decentralized and social security institutions. Had they been paid, the difference on which the indicator is based would have been less than 5 percent in 2006 and 2007, although greater than 19 percent in 2008.

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turns compared to original approved budget	**B**	**Scoring Method 1**
(i) Difference between executed primary expenditure (paid) and primary expenditure as originally budgeted.	B	In 2 out of the 3 years under analysis, the executed expenditure out-turn was less than 10% as compared to the original approved,

[14] As described in connection with PI-16, for FY2008 the budget increase was approved by Congress in November, just little over a month away from the end of the fiscal year.

		but exceeded 5% in two years.

PI-2 Composition of expenditure out-turn compared to original approved budget

58. This indicator measures the out-turns in the composition of the executed (paid) expenditure compared to the original budget for the various central government institutions and for the same years as indicator PI-1 (2006, 2007 and 2008).

(i) Extent to which variance in executed primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1)

59. The data reveal that the deviation in composition—measured as the sum of the absolute variation of the different entities (the 20 main ones plus the rest)—exceeded the overall primary expenditure deviation by over 5 percentage points in the three years under analysis.

Table 3.2 Deviations in Budget Execution of Central Government's Overall Expenditure and Composition

Year	***Percentage of original budget expenditure***		
	Overall primary expenditure out-turn, net of external financing **(a)**	***Variance in primary expenditure composition, net of external financing*** **(b)**	***Extent to which variance in composition exceeds overall expenditure out-turn*** **(b)-(a)**
2006	3.9	13.7	9.7
2007	7.6	14.6	6.9
2008	15.1	23.5	8.4

Source: Tables A.2 to A.4, Annex 1. General Directorate of Fiscal Accounting.

60. A good share of this greater deviation originates in (a) greater transfers from central government to subnational entities, following rules for such transfers regarding tax revenue sharing, such transfers being higher than expected (as described under PI-8); and (b) strong flows of resources that were transferred to state-owned enterprises (in particular to YPFB) especially in 2008, which had not been contemplated in the original budget. On the other hand, there was a trend to lower paid expenditure as compared to approved budgets in institutions that had their budget significantly increased, especially for infrastructure works that require studies and procurement processes that may take time to be completed. This is the case in boom years, as were the fiscal years being analyzed in this review, and as also seen in other countries.

61. In evaluating this indicator, it is necessary to take into account that it is not intended to measure the pertinence of having reoriented expenditure to different activities through time, but instead whether these changes in orientation were included or not in the original budget, evidencing the relevance of the budget as a useful tool for resource allocation. However, it is necessary to bear in mind that the slightly higher deviation in 2006 may be attributed to takeover of a new administration at the start of that year, inheriting a budget approved under the previous administration and wanting to prioritize certain activities (basically the state productive sector and social sectors) that were not included to the same extent in the original approved budget.

Indicator	Score	Explanation
PI-2. Composition of expenditure out-turn compared to original approved budget	**C**	**Scoring Method 1**
(i) Extent to which variance in executed primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1).	C	The variance in the composition of primary expenditure exceeded overall deviation by over 5 percentage points in the three years under analysis.

PI-3 Aggregate revenue out-turn compared to original approved budget

62. In evaluating this indicator, the coverage of the central government has been used, including both tax revenues, considering the royalties that are directly collected at this government level, and contributions to social security and other non-tax revenues, but excluding grants received from abroad, following the PEFA framework methodology. The source of information was the General Directorate of Fiscal Accounting (*Dirección General de Contabilidad Fiscal*) of the Vice Ministry of Budget and Fiscal Accounting.

63. Tax revenues, including central government royalties, represented 83 percent of the total fiscal revenues of the central government. It should be noted that less than half of the total royalties on hydrocarbons is included in these figures since the rest is recorded as an income of the subnational entities. Even so, the main hydrocarbon taxes, Direct Tax on Hydrocarbons (IDH) plus royalties, represented close to 27 percent of the central government tax revenue.[15] These revenues have increased considerably over the last three years due to the high international prices for these products and the measures adopted under this administration—practically doubling their share in the GDP, on average, in 2006, 2007 and 2008 as compared to the 3 previous years. Other important revenues with high levels of collection in Bolivia are the value added tax generating 28 percent of tax revenues, and corporate income tax and tax on transactions, which jointly account for 20 percent.[16]

(i) Domestic revenue collection compared to revenue estimates in the original, approved budget

64. In the years under analysis (2006, 2007, and 2008), the actual revenues were higher than those estimated in the original budgets, reflecting an average under-estimate of 12 percent (see Table 3.3.).[17] A good share of this outcome may be attributed to a better collection of hydrocarbon-linked taxes in a context of high international prices, higher than expected; but

[15] For the general government (which besides the central government includes the subnational governments), these taxes linked to hydrocarbons represented close to one-third of the total tax revenues on these years).

[16] The tax on transactions represents a de facto minimum income tax, based on gross sales or income. See, for example, Simone (2007) for a review of Bolivia's tax system and its recent development.

[17] It should be taken into account that the recording of fiscal revenues in Bolivia is gross and not net, as opposed to the usual standard [See IMF, Bolivia—Report on the Observance of Standards and Codes (ROSC), Data Module, Country Report No. 07/283, Washington, DC, August, 2007]. The most usual form of tax reimbursement is by means of Fiscal Credit Certificates. Table 5 in Annex A shows that these represent around 7 percent of total revenues, and if these certificates are excluded the fiscal revenues still exceed those originally budgeted, for an even slightly higher margin.

also to a higher than expected increase in various domestic tax revenues related to the boom period experienced by the economy in the years under analysis and possibly to an improvement in tax management.[18]

Table 3.3 Central Government Tax and Non-Tax Revenues

	Millions of Bolivians		
	2006	***2007***	***2008***
Initial budget	22,722.4	29,317.4	33,342.9
Revenues collected	27,115.8	30,787.3	37,463.8
Ratio of actual revenues to initial budget (%)	19.3	5.0	12.4

Note: Revenues exclude foreign grants.
Source: Table A.5, Annex 1, General Directorate of Fiscal Accounting.

65. The stage of budget formulation includes a series of internal technical meetings that are held around the middle of the year among officials of the Ministry of Economy and Public Finance, the Central Bank, the National Tax Service, the National Customs, National Statistics Institute (*Instituto Nacional de Estadística)* and Social and Economic Policy Analysis Unit (Unidad de Análisis de Políticas Económicas y Sociales), and others, to determine the main macroeconomic assumptions and thus the estimates of fiscal revenues for the following year. The basic assumptions are included in the notes distributed to the various institutions for the preparation of their respective preliminary draft budgets.

66. The under-estimation of revenues observed in the original budget in these three years under analysis is in contrast with the significant over-estimation that prevailed in previous years, when it was usual for the actual revenues to be significantly lower than those originally budgeted, something which was considered to be a weakness of the Bolivian system—as emphasized in several reports.[19]

Indicator	Score	Explanation
PI-3 Aggregate revenue out-turn compared to original approved budget	**A**	**Scoring Method 1**
(i) Domestic revenue collection compared to revenue estimates in the original, approved budget	A(*)	Actual domestic revenue collection was above revenue forecasts in the approved budget in the three years under analysis (2006-2008).

(*) This score strictly follows the parameters established in PEFA methodology, which are limited to comparing the effective fiscal revenue collection to the forecasts included in the budget, but does not consider other factors that could be decisive for countries with fiscal revenues originating mostly from natural resources, with high price volatility in international markets.

[18] According to data from the National Tax Service, the domestic taxes, excluding IEHD, IDH, ITF and the Transitory Program besides the royalties, increased at an annual rate of 6 percent above the actual GDP growth and inflation in the last 3 years, as compared to the 5 percent estimated in the budget assumptions for those years.
[19] World Bank, et al and Carlos Scartascini and Ernesto Stein, The Bolivian Budget (1990-2002), A Year Long Budgeting Process, Draft, IDB, March 2004.

PI-4 Stock and monitoring of expenditure payment arrears

67. This indicator is intended to evaluate the extent to which a stock of payment arrears exists and whether there are full data on the same to allow for adequate control and monitoring for resolution.

68. In the case of Bolivia, section 9 of the Law on Budget Administration (Law 2042 of December 1999) provides that public sector entities will not commit or accrue expenditure charged to resources of the National General Treasury in excess of the monthly quota allocated by the Ministry of Finance (currently the MEFP), through the Vice Ministry of Treasury and Public Credit. Such provision is intended to prevent payment arrears by preventing commitments where funds are not available.

69. The effective legislation however does not include a specific definition of payment arrears; although some types of contracts—mainly for infrastructure—may include certain terms under which unpaid liabilities may be considered to be in arrears and in some cases give rise to penalties. In view of the lack of a predefined criterion to evaluate this indicator, it was agreed with the MEFP to adopt the parameter suggested in internationally accepted commercial practices, consisting of 30 days following the date on which the government receives an invoice, which after being verified is recorded as accrued in SIGMA, according to the budget periods defined.

70. In spite of the lack of a local definition, the practices adopted by the MEFP attempt to prevent payment arrears in three ways: (a) *precise cash forecast* (updated on a weekly basis); (b) *annual budget authorization ceilings* [allocated to each implementing entity (and programmed in SIGMA for control purposes) against which commitments are made]; (c) *cash ceilings,* called *commitment quotas* (monthly in the case of investment expenditure, and quarterly for current expenditure) approved and controlled by SIGMA. If owing to the nature and seasonality of the expenditure, an entity requires a commitment quota in excess of the authorized one to be able to address committed payments, the Treasury can authorize and approve certain duly justified exceptions (for example, the purchase of goods that require payment of 100 percent of the amount authorized in the budget in a single installment). The Treasury and budget officials consider that this is an effective way of preventing the accumulation of payment arrears.

71. Some implementing agencies reported that they have developed alternative temporary financing arrangements to avoid delays in their programs when there is a lack of cash availability. Others indicated that they deferred purchases, but there effectively are cases in which the entity will have to decide to prioritize the payment of certain liabilities and postpone the payment of others.

72. Annually, toward the end of the year, the entities have to record (accrue) all the obligations generated and that need to be covered with resources allocated in the respective budget—up to the total approved commitment quota—possibly including the registration of some obligations that although legally generated in previous months had not been recorded as accrued. The obligations recorded before the closing are not always paid before December 31, and their payment is postponed to be legally approved within the first quarter of the following year. It is reflected as *floating debt* at the close of the current year, in accordance with the regulations provided in Law No. 2042.

73. Table 3.4 shows the floating debt balances at closing for 2006, 2007 and 2008 and the periods within which they were paid, thus determining the balance and percentage of total expenditures that were paid in arrears after the close of the year. As shown in Table 3.4, the percentage of arrears—using that criterion—is low, which could also be the result of favorable circumstances in those years. It should be noted, however, that this calculation is only as of December 31 and does not represent a precise calculation from the date of the invoice or when the liability was effectively generated but rather constitutes the best approximation with the information available.

Table 3.4 Payment Arrears

Year	*Millions of Bolivians*					*Percentage of payments in arrears*
	Total expenditure accrued in the year [a]	*Floating debt at year-end*	*Amount paid within 30 days*	*Amount paid between 31 and 90 days*	*Amount unpaid as of March 31*	
2006	38,941.9	1,294.293	902.683	49.406	162.199	0.54%
2007	61,276.9	1,548.887	952.550	150.177	193.593	0.56%
2008	81,673.7	1,579.207	1,200.689	80.448	124.050	0.25%

[a] Excluding public debt service expenditure.
Source: Review team, based on information supplied by the Vice Ministry of Treasury and Public Credit.

(i) Stock of expenditure payment arrears

74. The information available does make it possible to verify that the percentage of expenditure accrued at year-end and paid in arrears is not necessarily significant. However, the calculation as conducted does not comply with the requirements of the PEFA methodology for this dimension since there is no data on the dates of the invoices or the effective generation of a liability. Also it is not possible to capture non-recorded invoices, for example, that could become accumulated without it being noticed. Pursuant to these considerations, no score is assigned to this dimension, owing to limitations in the available information.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

75. The information provided by SIGMA shows the amounts pending payment at the close of each fiscal year (floating debt), based on the liabilities that would have been duly recorded as accrued, with the understanding that all the instances of review and approval of the invoices or other documents to enable payment had been completed. On the basis of this information, the General Directorate of Treasury Programming and Operations can monitor the effective payment of these pending payments by the entities in order to ensure that they are regularized prior to March 31.

76. At the close of the year the entities make sure they record—as accrued—all payments that are due chargeable to the budget for that fiscal year. But, it could happen that during the year (and also at year-end) certain liabilities are not recorded and therefore are not being adequately monitored. Invoices for goods and services provided to the entities, for example, may have not been issued (many times as a result of an agreement between the supplier/contractor and the

implementing entity) and therefore the expenditure is not accrued. Delays can be attributed to the administrative process for payment approval (e.g., work progress certificates), or payments for invoices or payment documents that have been delivered but not processed in SIGMA on a timely basis. These situations cannot be easily detected or monitored and will fully depend on the internal control systems of each entity and their capacity to control its liabilities from the time they originate and not just since their accrual is recorded.

Indicator	*Score*	*Explanation*
PI-4 Stock and monitoring of expenditure payment arrears	**N/A (*)**	**Scoring Method 1**
(i) Stock of expenditure payment arrears	N/A	The available information does not meet the PEFA requirements to score this dimension.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	Data on stock of payment arrears are generated on an annual basis, using the record of floating debt, but this monitoring can only be effected as from the time when a liability is formally recorded as accrued; however, there is no information to monitor payment arrears as from the effective generation of a payment liability; there could be invoices that are not recorded, or not captured by the system. However, based on the information provided on the basis of the record of floating debt, it may be noted that payments are made promptly and arrears are not significant.

(*) The information required by the PEFA framework is not available to score dimension (i) and although the scoring method is M1, in accordance with the document “Clarifications to the PFM Performance Measurement Framework of June 25”, it is not possible to score this indicator.

3.2 Comprehensiveness and Transparency

77. This group of indicators measures budget coverage, access by citizens to budget information in a clear and timely manner, and oversight of potential fiscal risks in case of non-forecasted eventualities that could arise. This is done through the following indicators: (a) classification of the budget; (b) comprehensiveness of information included in budget documentation; (c) extent of unreported government operations; (d) transparency in intergovernmental fiscal relations; (e) oversight of aggregate fiscal risk from other public sector entities; and (f) public access to key fiscal information.

PI-5 Classification of the budget

78. This indicator measures the robustness of the budget classification used for expenditure monitoring at the stages of budget formulation, approval, and execution. The linkage of budget classifiers with the chart of accounts contributes to giving certainty that the financial

transactions were developed under adequate accounting standards. This indicator was evaluated using the budget classifiers employed in FY2008, the last fiscal year ended.

(i) Classification system used for formulation, execution, and reporting of the central government's budget

79. According to Law 1178 of Government Administration and Control (SAFCO Law), the Ministry of Economy and Public Finance (MEFP, formerly the Ministry of Finance) is the lead agency in the budget system. Within that framework, Supreme Resolution No. 225558 (of March 2005) approved the Budget System Basic Standards; article 16 thereof provides that all public sector entities shall use the budget classifiers issued and approved by the current MEFP for each fiscal year.

80. In practice, the classifiers are developed by the current General Directorate of Budget Programming and Management, with participation of the current General Directorate of Fiscal Accounting, and are approved by a MEFP Ministerial Resolution for each fiscal year after consultation with the various public sector institutions.[20] In spite of this potential flexibility, at least in the last two years the budget classifiers have remained practically unchanged, thus facilitating the analysis of budgets over time.

81. Like in the previous years, for 2008 there are classifiers for institutional expenditure (administrative), per expenditure objective (economic) and per source of financing and financing agency (as well as geographical).[21] Starting with the 2006 budget, the budget is approved with the classifier per objective and function, which is practically the same as the international UN-approved COFOG standard,[22] with the most remarkable exception being the amortization of public debt (and financial applications) that, since they are not truly expenditure in economic terms, are recorded under a separate item (item 99).

82. Although the approved budget is reported using the classifier per objective and function, the executed expenditure is not reported in accordance with such classification in the ex post financial statements that the Executive sends to Congress—or in the monthly budget execution reports. However, the SIGMA information system, which covers close to 90 percent of the central government expenditure, records expenditure automatically in accordance with this budget classifier and the charter of accounts. Expenditure is recorded not only at the first level of aggregation but also at lower levels (sub-functional), where the second level comprises 69 categories (in turn subdivided into a third level), both in the formulation and execution stages.

83. As mentioned in the IMF report on Bolivia's statistical transparency, budget classifiers use concepts and definitions that are basically consistent with the recommendations of the 1986 Public Finance Statistics Manual (*Manual de las Estadísticas de Finanzas Públicas*) rather

[20] For the 2008 budget, the classifiers were approved under Ministerial Resolution No. 509 of October 12, 2007, just 13 (calendar) days before the Executive submitted the draft budget to Congress. In the two previous years, these resolutions on the classifiers were approved instead at the end of August and beginning of September, respectively, and for the 2009 budget the respective resolution was approved on September 30, 2008.

[21] Supreme Resolution No. 225558 (December 2005) on the Budget System Basic Standards, as well as other previous regulations, emphasize a program-based budget structure. There have always been difficulties to implement it, and through the years it has not been effectively used (see Germán Molina Díaz, *El sistema presupuestario boliviano 1960-2003 y propuesta de presupuesto plurianual*, Observatorio de la Economía Latinoamericana, No. 83, August 2007.

[22] Classifications of Functions of Government.

than those of the 2001 Manual.[23] But although the IMF recommends migrating to the 2001 manual,[24] the fact of using classifiers based standards in the 1986 manual is no reason to reduce the score for this indicator since what it requires is consistent use of a system.

Indicator	*Score*	*Explanation*
PI-5 Classification of the budget	**A (*)**	**Scoring Method 1**
(i) Classification system used for formulation, execution, and reporting of the central government's budget.	A	Both the budget formulation and execution use classification systems that allow for the generation of consistent documentation based on various classifiers, including administrative, economic and functional, which in turn is divided into the respective sub-functions.

(*) The use of classifiers capable of generating consistent documentation is recognized, including the use of the functional (sub-functional) classifier at the execution stage, for most of the central government expenditure (although they are not reported in the financial statements).

PI-6 Comprehensiveness of information included in budget documentation

84. This indicator evaluates the information contained in the documents that the Executive submits to the Legislature for the annual budget scrutiny and approval, including the draft budget and the supporting documentation, with the aim of verifying the extent to which such information presents a complete picture of the central government's fiscal forecasts, the expected outcomes and their comparison with the outcomes of previous fiscal years. This indicator was evaluated using the documentation submitted to Congress in connection with the draft budget for the year 2009, the last budget submitted to the Legislature.

(i) Information contained in the most recent budget documentation

85. In the presentation of the annual budget bill, the Executive attaches detailed information on the resources and their application, and a brief exposition of reasons, explaining the macroeconomic context and the major objectives set out for the corresponding fiscal management. As described in greater detail in the analysis of PI-27, the documentary presentation of the budget bill is completed with an oral presentation by MEFP before the Finance Committee of the Chamber of Deputies, with the purpose of providing greater detail and addressing the concerns of the members of the Committee.

86. Table 3.5 details the information contained in the documents presented to Congress in connection with the nine criteria suggested for the evaluation of this indicator. As shown, in the case of the FY2009 budget, the documentation presented by the Executive to Congress together with the budget bill complies with three of the nine requirements.

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[23] 2001 Public Finance Statistics Manual (Manual de Estadísticas de Finanzas Públicas, 2001)

[24] The main actions to do so are indicated by E.G. Ahmad and others, *Bolivia—Improving Budget and Decentralization Processes*, Fiscal Affairs Department, IMF, November 2004.

Table 3.5 Information on the Contents of Budget Documentation

Documentary requirement	*Compliance*	*Explanatory Notes*
Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes	The explanatory notes include a table with the main macroeconomic variables for the corresponding fiscal year (2009): GDP growth rate, inflation, and average and year-end exchange rate, nominal GDP and minimum wage.
Economic outcome	Yes	The same table indicates the fiscal deficit forecasted for 2009, using a conventional definition of the same. This estimate is for the whole consolidated public sector, not only for the central government proper.
Estimated deficit financing	Yes	The summary tables show both domestic and external financing, which is broken down in the detailed tables.
Public debt stock	No	This information is not included.
Financial assets	No	Cash balances and other financial assets, if any, are not included; it only includes the flow of balances forecasted for use during the year (in the detailed tables).
Previous budget year out-turns (2007 in this case)	No	This information is not submitted to Congress in the documentation of reference. Although it is generally available to the public, it is not included in the documentation necessary for an easy comparison over time; and besides, there is no assurance that the information available was calculated with the same methodology and coverage.
Current budget year expected outcomes (2008 in this case)	No	This documentation is not attached.
Summarized budget data of the main revenue and expenditure items pursuant to the classifications used, including data for the current and previous years (2007 and 2008, respectively, in this case)	No	Simplified charts are included, but only for the forecasted year, without comparing to the estimated outcomes of the previous years.
Explanation of budget implications of new revenue and expenditure policy initiatives.	No	No list is included of the major new measures, nor estimates of their fiscal cost (benefit). Included are targets of greater collection efficiency by the collection agencies (National Tax Service and National Customs of Bolivia). The minister in the oral presentation may provide some specific estimates.

Source: Review team, based on documentation submitted by the General Directorate of Budget Programming and Management and information gathered from the Technical Secretary of the Finance Committee of the Chamber of Deputies.

Indicator	*Score*	*Explanation*
PI-6 Comprehensiveness of information included in budget documentation	**C (*)**	**Scoring Method 1**
(i) Information contained in the most recent budget documentation (presented by the Executive to Congress)	C	The documentation of the budget bill most recently submitted to Congress complies with 3 out of the 9 required criteria.

(*) In scoring this indicator is it important to take into account that although some of the documents or information required in the suggested criteria does exist and could even be available, it is not attached or included in the budget bill that is sent to the Legislative Branch.

PI-7 Extent of unreported government operations

87. This indicator focuses on verifying the extent to which annual budget estimates presented to the Legislature, the in-year execution reports, the financial statements, and other fiscal reports include all central government activities. The aim is to provide a comprehensive view of the central government revenues, expenditure under all categories, the economic outcome, and its financing. To that end, the indicator requires evaluating the level of extra-budgetary expenditure that does not appear in the fiscal reports, including the level of information on revenue and expenditure connected to donor-financed projects.

(i) Level of extra-budgetary expenditure (other than donor-financed projects) unreported in fiscal reports

88. The budget submitted by the Executive to Congress (National General Budget) has a broad coverage, comprising the various central government institutions (24 institutions in the central administration, 87 decentralized institutions and 6 social security institutions), the subnational governments that are grouped in the so-called territorial administration (comprising the 9 prefectures and the 327 municipalities), and the state-owned companies at the various government levels (41 in the 2008 budget, including both financial and non-financial). Also reported are the transfers to trust funds from (at least) domestic resources.

89. From the data supplied, it would seem that the National General Budget reports all revenues and expenditures of these institutions, with exception of the municipalities for which only the transfers they receive from the central government are recorded and not their self-generated revenue or the expenditure they may finance out of those resources.[25] The fact that the budget does not comprise all the operations of the municipalities is no reason to reduce the score since the exercise is based on the coverage of the central government—besides the fact that the respective municipal budgets are approved according to clear rules and following

[25] However, in accordance with the Law on Municipalities (Law 2028, of October 1999), the municipalities have a deadline (up to December 31); so that after learning definitely about the forecasted transfers in the National General Budget, they complete the preparation and approval of their respective budgets by the Municipal Councils that then have to be sent to the MEFP.

legally established procedures.[26] At the execution stage, the municipalities report to the MEFP all the revenues and expenditures.

90. Although it is not possible to disregard that some expenditures financed with a portion of self-generated revenues may not be properly recorded, it seems that, if any, they would be quite limited, taking into account the following: (a) most of the central government activities are recorded through SIGMA; (b) any revenue collected by the central administration entities is automatically transferred to the Single Treasury Account at the end of the day and, on that basis, must be recorded in SIGMA in order to be used; and (c) all the institutions have to report their financial statements on a monthly basis to the General Directorate of Fiscal Accounting following the budget classifiers and the chart of accounts.

91. The information received for this review from the General Directorate of Fiscal Accounting on budget execution contains the same degree of detail as in the approved budget, at least for the central government institutions. However, the fact that the central government accounts—in an integral manner—are not audited by the Auditor's General Office means that there is no independent assurance regarding comprehensiveness, due registration, and coverage.

(ii) Income and expenditure information on donor-funded projects, which is included in fiscal reports

92. According to Supreme Decree No. 29894 of February 2009, the functions of the Vice Ministry of Public Investment and External Financing (*Viceministerio de Inversión Pública y Financiamiento Externo*) of the Ministry of Development Planning include (a) monitoring and evaluation of the public investment budget, as well as foreign financing and agreements, in coordination with all the state entities that are in charge of executing investments; and (b) managing, negotiating, and executing external financing agreements and agreements of international economic and financial cooperation.

93. Within the framework of these mandates, the Vice Ministry of Public Investment and External Financing centralizes the information on external financing (credits/loans and grants), maintaining records per source of financing that detail in each case the amount committed under the agreement, disbursement forecasts for each year, and effective disbursements. This information is recorded through the External Financing Information System (*Sistema de Información sobre Financiamiento Externo*, *SISFIN*), which is actually fed with the information provided by the donors on the disbursements carried out periodically (on a monthly or quarterly basis, according to the policy of each donor). This procedure implies that if any donor fails to report timely information, the information provided by the system could have some type of time lag. In addition, it is important to note that the SISFIN is not integrated with any other system such as SIGMA; therefore, although it may serve to monitor the disbursements, the information recorded in SISFIN needs to be reconciled with the Central Bank of Bolivia, and General Directorate of Fiscal Accounting for the adjustment and inclusion of some items.

94. The registration in the budget and in the fiscal reports of the revenue and expenditure under projects with external funding is entirely dependent on the project implementation entity in charge. Under this scheme, the Budget Formulation Directives establish the guidelines and

[26] Once the transfers from the National General Budget have been estimated, the municipalities complete preparation of their respective budgets and have them approved by their respective Municipal Councils and report them to the MEFP, as explained in the description of PI-8.

requirements to include in the draft budget of each entity of the resources originating in grants and loans, in cash or in kind, in support of specific projects and programs. These have to be supported by the agreements executed with the financers, disbursements schedules, and the fund availability certification issued by the Vice Ministry of Public Investment and External Financing. Similarly, the entity also has to comply with the expenditure programming (current and investment) for programs and projects with external funding, following the applicable budget classifiers and identifying the source of funding and the funding agency.

95. Taking into account that the budgetary registration of revenues and expenditures for externally funded projects has to comply with a series of administrative requirements such as subsidiary agreements[27] and the effectiveness of the agreement itself (aspects that can then be completed in the course of the fiscal year), it is common for the registration of externally funded projects to need processing through a budget amendment, which does not require Congressional approval, under the rules included in Law No. 2042 of Budget Administration (Section 8) and the Supreme Decree regulating budget amendments.[28] According to Supreme Decree No. 29881, the Vice Ministry of Public Investment and External Financing is responsible for validating and approving the recording of the budget modifications related to public investment projects. Consequently, the Vice Ministry of Public Investment and External Financing with the MEFP will process the input of the records in the National General Budget. If it is not a public investment project, the process to include the grant funds in the National General Budget must be carried out by the implementing agency or beneficiary with the MEFP in accordance with the procedures established in said regulations.

96. On the other hand, Supreme Decree No. 29308 on grants has not yet been regulated;[29] however, the registration and reporting process for grants is generally provided in SISFIN.

97. With the purpose of determining which agency should be involved in the budget registration, it is necessary to determine if the initiative constitutes a public investment project, within the framework of the Basic Standards of the National Public Investment System (*Sistema Nacional de Inversión Pública, SNIP*). In accordance with the SNIP standards, every public investment project needs to be registered in the Investment Information System (*Sistema de Información sobre Inversiones*, *SISIN*). In order to do so, it is necessary to meet the requirements established in the basic standards of SNIP for SISIN and pre-investment operations.

98. According to these requirements and once the revenues and expenditures of the projects and programs with external funding have been included in the budget, they also become part of the fiscal reports, both the monthly reports available in SIGMA and in the annual financial statements of the central administration, which are prepared by the General Directorate of Fiscal Accounting, under the guidelines described in PI-25. With regard to these reports, it is important to note that they include the cash disbursements of international cooperation but not the total for technical assistance, institutional strengthening and contributions in-kind. This is because it is not possible for the beneficiary entities to provide the documentary back-up for

[27] Agreement signed between the Development Planning Ministry, the Ministry of Economy and Public Finance and the entity that will be in charge of executing a project.
[28] Supreme Decree No. 29881 dated January 7, 2009.
[29] Supreme Decree No. 29308 dated October 10, 2007.

the registration and execution of these resources that, moreover, are managed directly by the international agencies.[30]

99. Although on that basis it is possible to have reasonable certainty regarding the inclusion of the revenues and expenditures of projects and programs with external funding in the fiscal reports, these do not include the total resources from the cooperation of the Bolivarian Republic of Venezuela, which are mostly being allocated to the municipal governments. The amount of these grants would account for 3 percent of the total donations for 2008, according to MEFP information. On the other hand, according to information from the Vice Ministry of Public Investment and External Financing, the amount corresponding to commercial credit of the Bolivarian Republic of Venezuela is equivalent to 6 percent of the current external financing portfolio, which is duly registered.[31]

100. ***Reforms.*** With the approval of the new Constitution, it is envisaged that the budget submitted to Congress will include the entire State (i.e., including all revenues and expenditures of the municipalities). Accordingly, the guidelines issued for the formulation of the General State Budget for 2010 establish that the municipalities have to include all their revenues and expenditures, and the budgets approved will have to be included in the budget to be submitted to Congress, thus extending its coverage further.

Indicator	*Score*	*Explanation*
PI-7 Extent of unreported government operations	**A**	**Scoring Method 1**
(i) Level of extra-budgetary expenditure (other than donor-funded projects) unreported in fiscal reports	A	The budget coverage and information on execution are broad, and the amount of extra-budgetary expenditure is not significant.
(ii) Income and expenditure information on donor-funded projects, which is included in fiscal reports	A	Fiscal reports include complete information on income and expenditure corresponding to 90% (by value) of donor-funded projects (loans and grants), except for in-kind contributions.

PI-8 Transparency of inter-governmental fiscal relations

101. This indicator measures the degree of transparency and lack of arbitrariness (existence of explicit rules) for horizontal allocation (allocation across subnational governments at the same level) for the transfers granted by the central government. To that end, this review refers to the transfers granted both to the prefectures (9) and to the municipalities (327) but not to the state-owned companies since the latter are not part of the general government. FY2008 has been used as the basis for the analysis because it is the last fiscal year ended.

[30] Notes to the Financial Statements of the Central Administration for Fiscal Year 2008.
[31] US$5.041 million of credit and grant as of September 2008.

102. During the past 15 years, Bolivia has carried out a broad decentralization process.[32] This process has been characterized by a significant increase in the amount of transfers to the subnational levels and a greater share of these transfers in total central government expenditure, mainly as a result of the fiscal revenues linked to the exploitation of natural resources, which are exposed to significant price variations and distribution is subject to the location of such resources. The transfers from the central government to the subnational governments now represent slightly over 30 percent of the central government total revenues (there is likewise a strong increase in the transfers to state-owned companies).

(i) Transparent and rules-based systems in the horizontal allocation across subnational governments of transfers from central government (both budgeted and actual allocations)

103. In 2008, the central government transferred resources for 14 billion Bolivians, of which 50 percent corresponded to transfers to municipalities and the other half to the prefectures—as shown in Table 3.6. Over 90 percent of transfers allocated to the municipalities represent predetermined shares in national tax revenues. Contrastingly in the case of the prefectures, slightly over 20 percent of the transfers recorded by the central government correspond to shares in national tax revenues, while close to 80 percent correspond to the management and payroll of teachers and health-care providers, duly included in the National General Budget. The remainder is, in essence, the transfer of donor funds with clear criteria based on poverty levels. It all shows a high degree of transparency in the horizontal allocation of transfers since it is based on well-defined rules. However, it should be noted that no measurement is done here of the adequacy of those rules or their impact on the horizontal imbalances across regions. Neither does this indicator evaluate aspects referring to the vertical allocation of resources between the central and the subnational levels, which could lead to a discussion of other aspects of PFM.

[32] For further details and analysis of said evolution, see World Bank, *Análisis de la Situación Institucional y de Gobernabilidad: Hacia una Descentralización Inclusiva (In two volumes)* Report Nº. 36285-BO, May, 2006.

Table 3.6 Central Government Transfers to Subnational Governments, 2008

	Original budget (million Bolivians)	*%*	*Paid (million Bolivians)*	*%*
To Prefectures	**6,537.6**	**52.7**	**7,079.5**	**50.0**
IEHD sharing	439.2	3.5	501.5	3.6
IDH sharing	792.3	6.4	1,095.7	7.7
Departmental Compensation Fund	175.7	1.4	169.0	1.3
Others from National General Treasury	4,716.0	38.0	4,938.3	34.9
Others from external sources[a]	336.2	2.7	323.6	2.3
Transfers from decentralized institutions[b]	77.2	0.6	50.2	0.4
To Municipalities	**5,864.8**	**47.3**	**7,074.7**	**50.0**
Tax-sharing	2,925.8	23.6	3,635.0	25.7
IDH Sharing	2,533.7	20.4	2,926.7	20.7
Others from National General Treasury	22.8	0.2	54.0	0.4
Others from external sources[c]	320.6	2.6	369.4	2.6
Transfers from decentralized institutions[d]	62.0	0.5	89.6	0.6
Total [5]	**12,402.5**	**100.0**	**14,154.2**	**100.0**

[a] Basically grants.
[b] Basically transfers of Bolivian Highway Administration.
[c] All grants, linked to Dialogue 2000.
[d] Especially transfers from the National Productive and Social Investment Fund.
[e] The amounts that the subnational governments must allocate to the Universal Elderly Pension Fund have not been discounted.

Source: Review team, based on information provided by the General Directorate of Fiscal Accounting.

104. Box 3.1 details the rules used for the horizontal allocation of transfers, which reflect that they are determined and carried out according to rules-based transparent systems, at least for almost all of them.

Box 3.1 Rules Used for Horizontal Allocation to Municipalities and Prefectures

Municipalities

Of the total amount transferred to the municipal governments (based on 2008 data), 93 percent are shares in national tax revenues, the distribution of which is fully specified by law, as follows:[a]

The Popular Participation Law (*Ley de Participación Popular, No. 1551 of April 1994*) provides (Section 20) that 20 percent of the national revenue collection be allocated to municipal governments (and 5 percent to the universities, which in the coverage of this review are part of the central government). Section 21 of the same law provides that the horizontal allocation across municipalities will be made as a function of the number of inhabitants in accordance with the last available census.

The Hydrocarbons Law (*Law No. 3058 of May 2005*) created the Direct Tax on Hydrocarbons (*Impuesto Directo a los Hidrocarburos, IDH*) and also specified the share of the departments and the central government in the royalties on hydrocarbon production. Its tax rate and allocation have been modified several times. Supreme Decree No. 29322 (of October 2007) established the following allocation: (a) 66.99 percent of the revenue from this tax will correspond to the total municipalities in the department, a percentage which in turn will be distributed among them in accordance with the number of inhabitants; (b) 24.35 percent to the departmental prefecture; and c) the remaining 8.62 percent to the department's university/ies.[b] Regarding the allocation of the revenues collected for the concept of the IDH, Supreme Decree No. 29400 (December 2007) established that 30 percent of the income of the municipalities, prefectures, and National General Treasury should be allocated to the Universal Old Age Pension Fund, and set up as a trust fund for that purpose.

The Hydrocarbons Law also provides that 50 percent of the revenue from oil patents will be allocated to the municipalities where the oil concessions are located.

Prefectures

The prefectures receive transfers for the following concepts: (a) tax sharing in the Special Tax on Hydrocarbons and their Derivatives (*Impuesto Especial a los Hidrocarburos y sus Derivados, IEHD*), equivalent to 25 percent of the collection (pursuant to the Administrative Decentralization Law of July 1995);[c] and (b) transfers from the Departmental Compensation Fund (also created by the People's Participation Law) that is distributed among the prefectures receiving few royalties because they are not producers of natural resources, for an amount that enables them to reach the national departmental royalty average.

Close to 80 percent of the transfers received by the prefectures are granted by the National General Treasury for education and heath, in addition to administration expenditure. Such education and health expenditure is essentially to pay teachers and health care professionals; their compensation and number are determined by the central government. Subnational governments therefore have no autonomy regarding the amount of the expenditure. This expenditure goes through the same approval process as any other expenditure in the budgetary process that is submitted to the Legislature.

[a] The remainder (7 percent) corresponds to the allocation of HIPC funds and the National Social and Productive Investment Fund, based on poverty criteria.

[b] In accordance with the previous regulations, producer departments continue to have a higher share in the funds to be distributed, as well as the compensatory fund for certain subnational governments out of National General Treasury resources.

[c] It should be taken into account that royalties are considered own revenues in the official accounts and not transfers, and that to a large extent they are allocated to the prefectures of the producer departments.

(ii) Timeliness of reliable information to subnational governments on their allocations from central government for the coming year

105. The prefectures' income, expenditure and financing are approved together with those of the other central government entities (and state-owned enterprises), which are part of the National General Budget. As in the case of other public entities, the prefectures have a very short period to align to the budget ceilings established by the MEFP (as described in greater

detail under PI-11). For that reason, the Departmental Council needs to approve in a short period the draft budget before it is sent to the MEFP, to be included in the budget bill that is submitted to Congress around two months before the start of the fiscal year.

106. The municipalities, in turn, have until December 31 to approve their respective budgets and send them to the MEFP. But, since the National General Budget is only approved in the last few days of the fiscal year,[33] a municipality in order to prepare its budget must use the information on transfers contained in the budget bill—but since it only receives certified information regarding the estimated transfers after the National General Budget is officially approved, this leaves only a few days before the deadline to submit the budgets, supposedly after the respective Municipal Council has approved it.

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

107. Both prefectures and municipalities are supposed to send their respective budgets, approved by their respective councils, to the MEFP within a short timeframe (with fixed dates); and in fact most (representing over 90 percent of the subnational expenditure) do so. These reports are submitted using the various budget classifiers that are applicable consistently to the whole public sector, including functional classifiers, as reflected in the discussion of PI-5. The MEPF publishes the budgets on its website in considerable detail for each of the prefectures. At the aggregate level, it presents the expenditure of the prefectures and municipalities, expenditure per economic classifier and source of financing, and income and expenditure flow. Although the total public sector budget is aggregated, that for general government proper is not.

108. The municipalities and prefectures are required to submit their monthly accounts in accordance with the accounting standards of the General Directorate of Fiscal Accounting prior to the 20th day of the following month. All prefectures report within said period. The degree of compliance by the municipalities is very high. There are isolated cases of small municipalities catching up quickly to the deadlines because of the penalties that are applicable in the case of noncompliance and/or delays in the remittance of information. The omission of information is well below 10 percent, as a percentage of the expenditure of all subnational entities. Likewise, as in the case of other public sector institutions, after the end of the fiscal year they have until March 31 to present their annual financial statements to the General Directorate of Fiscal Accounting. Both the monthly accounts and the annual information fail to include expenditure information using the functional or any other sectoral classifier.

109. Pursuant to Sections 42 to 44 of Law No. 2042 of Budgetary Administration (as amended by Law 2137), the only requirement is to submit the financial statements of the central administration to the President of the Republic within 180 days of the fiscal year-end, for their subsequent remittance to Congress. In accordance with such regulations, the financial statements that are submitted to Congress only cover the central administration, excluding the decentralized entities and the social security institutions, as well as the subnational entities and

[33] December 26 in the case of the 2008 budget.

state-owned companies. Aggregate (or consolidated) financial statements for the general government or public sector are not available or disclosed.[34]

110. The General Directorate of Territorial Administration and Finances develops consolidated fiscal data for the general government and the whole public sector, breaking down the information per type of income, general expenditure category per economic group, economic outcome, and financing. This information is disseminated in the MEFP portal with a one-month delay, approximately. Likewise, this information reviewed in annual terms is published by the MEFP, both through the Fiscal Report and the Statistical Dossier with a delay of around 7 months. However, this ex post information does not provide expenditure at a functional or sectoral level, or compared to the original budget amounts.

111. The low score is not reflective of the accounts not being remitted in a short timeframe or not consolidated in a timely manner, but that these ex post reports do not include a breakdown by function or by sectoral category.

Indicator	*Score*	*Explanation*
PI-8 Transparency of intergovernmental fiscal relations	**C+(*)**	**Scoring Method 2**
(i) Transparent and rules-based systems in the horizontal allocation across subnational governments transfers from central government (both budgeted and actual allocations)	A	The horizontal allocation of almost all transfers (at least 90%) is determined by transparent and rules -based systems
(ii) Timeliness of reliable information to subnational governments on their allocations from central government for the coming year	C	Reliable information is provided to the subnational governments, only when it is no longer possible to introduce significant budget changes.
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D	Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for at least 90% (by value) of subnational government expenditure and consolidated annually within 10 months of the end of the fiscal year. The ex-post information, however, is not broken down into sectoral categories.

(*) Following Method 2, the average score for this indicator is affected by dimension (ii) according to which the subnational entities receive reliable information before the start of the fiscal year, but not before the budget preparation process is initiated, or before that process is completed and when significant changes can be made, as required by higher scores. Dimension (iii) is likewise affected because although the general government information is grouped within an adequate term, this is not done using a functional or other sectoral classification.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

112. The Budget Administration Law (Law 2042 of December 1999) provides that all the national, departmental, and municipal public entities are required to register with the Vice Ministry of Treasury and Public Credit at the start of their domestic and/or foreign borrowing

[34] A webpage of the Vice Ministry of Budget and Fiscal Accounting presents the fiscal data of each of the municipalities and prefectures until 2007 but without aggregation or consolidation with other general government entities.

operations, for the relevant authorization. Likewise, Section 35 of the Law provides that the decentralized, autonomous, and self-governing public entities are required to abide by borrowing limits established in the same Law in order to guarantee fiscal discipline and limit risk.[35] Each loan has to be submitted to the MEFP for an integral sustainability review and should comply with the minimum criteria of not generating an overall debt service burden in excess of 20 percent of the recurrent current income collected the previous year, or generating a total debt burden in excess of 200 percent of such income (Law 2042 and Basic Standards of the Public Credit System).

113. This review and authorization process for borrowing is regulated through the Registry of Initiation of Public Credit Operations. The requesting entities have to complete the process with the Vice Ministry of Treasury and Public Credit, to which end they must meet specific requirements referring to maximum financial limits (debt service and debt present value), as well as submitting financial statements, budget execution statements, and audit reports, among other requirements. Based on a review of the documentation and compliance with the established limits and parameters, the Vice Ministry of Treasury and Public Credit may authorize the borrowing.

114. In addition, Supreme Decree No. 29141 (of May 30, 2007) created the Financial Institutional Performance Program (*Programa de Desempeño Institucional Financiero*)[36] as an instrument to generate institutional, fiscal, and financial discipline in the public sector institutions and entities, aimed at having the entities adopt efficient and sustainable public debt and management policies. Within that framework, the MEFP is empowered to enter into Institutional and Financial Performance Agreements with the entities at their request, to which end a debt sustainability analysis is conducted, with regular monitoring and oversight by the MEFP.

115. The recent VTCP-created General Directorate of Territorial Finances (Territorial Finances Monitoring and Control Unit) maintains a record of the debt stock of the borrower entities that is solely based on the credit operation applications authorized by the Treasury on a given fiscal year. Therefore, it does not include entities that have failed to submit a request but could have accumulated debt. This limitation is also linked to lack of a system with the characteristics of SIGADE, the Foreign Debt Management and Administration Information System (*Sistema de Información para la Gestión y Administración de la Deuda Externa*), to facilitate an adequate registration, control, and monitoring of subnational debt and the debt of other public sector entities, such as state-owned enterprises, capable of providing comprehensive information to prepare global fiscal reports.

(i) Extent of central government monitoring of autonomous government agencies and public entities

116. Pursuant to the Budget Administration Law, all public sector entities are required to present budget execution information on monthly income, expenditure and public investment up to the 20th of the month following the execution, to the General Accounting Directorate

[35] The scope of this Section includes the municipalities (autonomous) and prefectures.
[36] The Institutional and Financial Performance Program was created taking into account the positive outcomes of the application of the Financial Adjustment Plan and the creation and administration of the Guarantee Funds.

(currently the General Directorate of Fiscal Accounting). This requirement applies to the entities independently from the information system they use (SIGMA, SINCOM, or another).[37]

117. On the other hand, the Basic Rules of the Government Accounting System establish that within three months of the close of the fiscal year, each public sector institution is required to submit to the General Directorate of Fiscal Accounting and make available to the Comptroller's General Office, the basic financial statements of the previous year, attaching the Internal Auditor's reliability report. It should be noted, however, that compliance with the requirement of presenting the audit reliability reports or opinions is only partial.[38] On the other hand, this information is only used by the General Directorate of Fiscal Accounting but not precisely to analyze/monitor the fiscal situation of the entities.

118. Regarding registration of initiation of public credit operations and their consequent approval, the VTCP-established requirements include submitting financial statements for the previous year and budget execution statements of resources and expenditure. These items are supported by the internal audit reliability report or external audit report, which in this case is used to make an analysis of the entity's fiscal situation. However, this requirement is only applicable to an entity that is requesting authorization to initiate a credit operation and does not apply to others not in this situation.

119. The General Directorate of Territorial Administration and Finances (*Dirección General de Administración y Finanzas Territoriales*) collects financial information (budget execution and bank statements of fiscal checking accounts) of the municipal governments, departmental prefectures, universities, and state-owned enterprises in an information system called Monthly Financial Registry. This function is based on IMF methodology for the development of fiscal figures (expressed as financial flows). This system also provides a certain validation of the information collected before its consolidation into three levels—general government, enterprises, and non-financial public sector—which is provided to the authorities for their review and decision-making.

120. Based on the above considerations, it can be concluded that although there exist requirements for the submittal of fiscal reports and audited annual accounts, compliance is partial and is only monitored for those entities that are requesting initiation of a new operation, but does not provide a precise overall scenario, thus not allowing for an adequate monitoring of the fiscal risk generated by these entities.

(ii) Extent of central government monitoring of subnational governments' fiscal position.

121. In addition to the requirements for the submittal of financial information described under dimension (i), the VTCP's General Directorate of Territorial Administration and

[37] Section 3, Law 1178 of Government Administration and Control sets out that the Public Sector entities include the Office of the President and Vice President of the Republic, the ministries, the administrative units of the Comptroller's General Office, and of the Electoral Courts; the Central Bank of Bolivia, the Offices of the Banking and Insurance Superintendents; the Development Corporations and the financial intermediation state entities; the Armed Forces and the National Police; the Departmental Governments, the universities and municipalities; the institutions, agencies and enterprises of the national, departmental and local governments, and any other legal person where the state holds a majority interest.

[38] In accordance with the notes to the Central Administration Financial Statements for FY 2008 that includes the net equity of decentralized entities and state-owned enterprises (without municipalities) reportedly only 47 entities submitted an external audit or reliability report.

Finances is responsible, among other things, for the monitoring, control, and review of the territorial entities (municipalities, prefectures, universities, and state-owned enterprises), and generating and maintaining the required information to that end.

122. Specifically with regard to the subnational level, the General Directorate maintains data on the stock of debt registered through the Registry of Initiation of Public Credit Operations for each fiscal year. However, the lack of a registration, control, and monitoring system with characteristics similar to SIGADE, coupled with lack of compliance similar to aspects of dimension (i), hinders and restricts preparation of consolidated reports on the fiscal position of subnational governments.

123. ***Reforms.*** With passage of Supreme Decree No. 29894 of February 7, 2009, approving the new organizational structure of the Executive Branch of the Plurinational State, the VTCP set up the General Directorate of Territorial Administration and Finances. Working through the Territorial Entities Operations and Information Unit (*Unidad de Operaciones e Información de las Entidades Territoriales*) and the Territorial Finances Monitoring and Control Unit (*Unidad de Seguimiento y Control de las Finanzas Territoriales*), the General Directorate is assigned the following functions: (a) collect economic-financial information of the public sector entities at the various territorial levels (municipal governments, departmental prefectures, universities, and state-owned enterprises) to generate information regarding the fiscal financial result of the non-financial public sector in order to make decisions related to macroeconomic fiscal policy; (b) administer and authorize the registration of territorial entities' fiscal current accounts; (c) conduct reorganization and fiscal sustainability programs with national and subnational public sector entities; (d) implement institutional financial performance indicators to contribute to transparency and social control and promote fiscal sustainability actions; and (e) develop information systems and databases of subnational debt operations.

124. Within the framework of Loan Agreement No. 1075/SF-BO between the Republic of Bolivia and IDB, it has developed several fiscal control and management instruments; some of the most important are: the Public Credit Operations Initiation Registration System (*Sistema de Registro del Inicio de Operaciones de Crédito Público*, SRIOCP), the Reserve Accounts Administration System (*Sistema de Administración de Cuentas Previsión*, SCP), Information and Risk Center (*Central de Información y Riesgo*, CIR) and the Subnational Debt Administration and Information System (*Sistema de Administración e Información de Deuda Subnacional*); it is expected they will begin operating in the next few months and will make it possible to maintain a complete record of the subnational debt (including state-owned enterprises and other entities), to which end it will be necessary to carry out a survey of information on cumulative debt.

Indicator	Score	Explanation
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C (*)	**Scoring Method 1**
(i) Extent of central government monitoring of autonomous government agencies and public entities	C	Although there is a requirement to present monthly fiscal reports and annual financial statements (with reliability or audit reports), this requirement is met partially, affecting the availability of complete information.
(ii) Extent of central government monitoring of subnational governments' fiscal position	C	There is monitoring of the net fiscal position corresponding to the major subnational government level, but the records are not complete to allow for the preparation of consolidated reports of the municipalities fiscal position.

(*) Although public entities and subnational entities are required to send audited financial statements and fiscal reports and there is some monitoring (e.g., through the Institutional and Financial Performance Program), the lack of compliance with this requirement does not allow the central government to have complete and consolidated information on which overall fiscal risk reports may be prepared, as would be required for a higher score. This affected the overall scoring for this indicator.

PI-10 Public access to key fiscal information

125. Fiscal transparency is a function of the extent, timeliness, and manner in which the government makes information on the budget and its execution available to the general public (or at least to those interested in these matters) in a comprehensive, readily understandable, and timely manner.

126. According to the Law of Government Administration and Control (of July 1990), public servants are required to provide processed information to any individual or group that requests it and demonstrates a legitimate interest. Supreme Decree No. 27329 fosters greater transparency and access to governmental information and requires that all Executive Branch institutions publicly disclose (through websites or by other means) the budget approved by the National General Treasury, the objectives and targets of the Annual Operating Plans, annual reports on budget execution, terms of reference of contract staff, and annual goods and services procurement plans. It also includes procedures for any individual to be able to request and demand specific information on the above matters. However, some communications media and civil society organizations have questioned the transparency with regard to fiscal issues and other areas, as well as the scope of the Supreme Decree No. 27329.[39] In late 2006, the then Ministry of Justice and Human Rights developed a new bill on transparency and access to public information.

127. For the evaluation of this indicator, the PEFA framework defines six information items that are essential for public access. Their analysis is presented in Table 3.7

[39] Neuman and Calland, 2007.

Table 3.7 Items of Public Access to Fiscal Information

Information item	***Availability and means of access***
Documentation on the annual budget when the budget bill is submitted to Congress	**No.** The annual budget is only made available to the public generally when the budget is approved (by Congress or because it comes into effect by not being approved within two months as mandated by the Constitution) and not when it is submitted to Congress. The text of the budget as well as broad information in two volumes and annexes is made available on the MEFP portal.
In-year budget execution reports	**No.** The reports prepared by the General Directorate of Fiscal Accounting on the public sector budget execution are for internal use only and are not disclosed, either to Congress or to the public generally. The budget execution information reported through SIGMA was available to the public on its website in the course of FY2008 with execution updates during the month following the respective month, but only with reference to the entities that use SIGMA. http://www.sigma.gov.bo/php/estadisticas_presupuesto.php
Year-end financial statements	**Yes.** The General Directorate of Fiscal Accounting presents to the Executive at the end of June the central administration financial statements (the bulk of central government) after receiving information from public sector entities until March 31 after year-end. This document (not audited) is made available to the public when the President submits it to Congress on August 6. The General Directorate of Fiscal Accounting also reports in its portal the individual financial statements of many entities that are part of central government and others.
External audit reports	**Yes.** The General State Comptrollership makes publicly available on its Web page all the reports of completed audits. However, there are no audit reports on the central government consolidated operations since the General State Comptrollership does not conduct audits at an aggregate level or individual financial audits. http://www.cge.gob.bo/PortalCGR/inicio.aspx?indice=2&grupo=7
Contract awards	**Yes.** Contracts for a value in excess of 20,000 Bolivians (approximately US$2,800) are published on the Web using the MEFP-managed SICOES, the Government Contracting Information System (*Sistema de Contrataciones Estatales*) with delays of under 3 months.
Resources available to primary service units	**No.** The information is not presented at the basic service unit level, such as primary education center or health center, many of which are directly managed by the subnational governments.

Source: Review team, based on the information available in the MEFP Web pages and other sites.

(i) Number of indicators on public access to the information mentioned in table 3.7 that are effectively used, in compliance with all the relevant specifications.

128. As shown in Table 3.7, the Government makes available to the public 3 out of the 6 required items within the appropriate timeframes.

Indicator	*Score*	*Explanation*
PI-10 Public access to key fiscal information	**B**	**Scoring Method 1**
(i) Number of the above listed indicators on public access to information that are used	B	The government makes available to the public three of the six required types of information.

3.3 Policy-based Budgeting

129. The two indicators under this group are intended to reflect the extent to which the budget is prepared, taking into account macroeconomic, fiscal, and sectoral policies in an orderly and participatory manner by the various participating stakeholders and with a multi-year perspective.

PI-11 Orderliness and participation in the annual budget process

130. This indicator measures the order maintained during the budget formulation process, giving the various executing ministries, departments, and organizations sufficient time to develop their specific draft budgets and consider a timely budget approval so that the execution stage is not affected.

(i) Existence of and adherence to a fixed budget calendar

131. The National Political Constitution, both the previous one and the new one approved in January 2009, establish that the Executive is required to present the budget bill to Congress no later than the 30th Congressional session, which generally takes place between the end of October and the start of November. Likewise, it specifies that if Congress fails to approve the annual budget bill within 60 days of having received it from the Executive, the bill is automatically enacted into law.[40]

132. Law No. 1178 of Government Administration and Control of 1990 (SAFCO Law), as well as the Executive Branch Organization Law (3351 of February, 2006) and Supreme Decree No. 29894 of February 2009 that adjusts the structure of the Executive Branch to the new Constitution, assigns responsibility to the MEFP for preparing the draft National General Budget (State General Budget in the new Constitution), in coordination with the other public sector agencies and entities.

133. Accordingly, the Basic Standards of the Budget System (approved by Supreme Resolution No. 225558 of December 2005) indicate that the Ministry of Finance (now MEFP) will be responsible for regulating the budgetary policy in its formulation and execution, to which end it will issue budget formulation directives with the guidelines and procedures to be used, as well as the information systems to be employed (articles 14 to 17) for each fiscal year.

134. Although the deadline to submit the budget bill to Congress and for its approval are clearly defined, the lack of precise and well-defined dates on the intermediate stages that need to be followed in the budget formulation and approval creates a certain level of disorder and

[40] See article 147 of the 1967 Constitution (as amended and unified by Law 2650, of April 13, 2004), as well as paragraph 11 in both Article 159 and Article 172 of the new National Political Constitution (enacted in January 2009).

reduces the adequate participation of all stakeholders in the development of the annual budget. This process, as well, does not provide sufficient time for entities to adequately prepare their budgets.

135. As shown in Table 3.8, the budget formulation directives that set forth the fundamental budget policy guidelines and the formulation technique—although not including the budget ceilings—are issued with some delay. In formulating the 2009 budget, the Executive approved the directives only 15 days before the deadline before the ministries, departments, and organizations needed to present their institutional preliminary drafts. As a consequence, the institutions were forced to initiate preparation of their respective preliminary drafts without directives and without allocated ceilings in order to comply with the draft presentation deadline in the already brief time allowed them.

136. The Executive has met the requirement of sending the budget bill within the period mandated by the Constitution, as shown in Table 3.8 by the date of the 30th regular Congress session and the date of presentation.

Table 3.8 Important Dates in the Budget Formulation and Approval Process

Budget year	*Approval of directives*	*Notification of expenditure ceilings*	*Deadline to present institutional drafts*	*30th Congress Session*	*Submit budget bill to Congress*	*Budget approval*
2006	7/09/2005	8/09/2005	21/09/2005	n.a.	n.a.	16/12/2005
2007	21/09/2006	15/09/2006	29/09/2006	n.a.	14/11/2006	16/01/2007
2008	1/10/2007	28/09/2007	5/10/2007	13/11/2007	25/10/2007	26/12/2007
2009	30/09/2008	8/10/2008	13/10/2008	10/12/2008	28/10/2008	29/12/2008

Source: Review team based on information from the Directorate of Budget Programming and Management, the MEFP web page, and the Official Gazette.

137. In conclusion, although there exists an established annual schedule for the presentation and approval stages, this schedule is rudimentary since it does not specify dates or defined deadlines to complete the intermediate stages in the budget formulation process. This also affects the time formally available to the entities in preparing and presenting their preliminary draft budgets.

(ii) Guidance on the preparation of budget submissions

138. In accordance with MEFP-adopted practices, MEFP officials meet with the Development Planning Ministry, the Central Bank, the Social and Economic Policy Analysis Unit, National Statistics Institute, and the revenue collection agencies (National Tax Service, National Customs) first with the aim of defining the basic macroeconomic projections and then

of outlining the fiscal revenues with some detail. The meeting takes place around the middle of the year prior to the budget year under preparation.

139. Based on this information, the General Directorate of Budget Programming and Management establishes the institutional ceilings. These ceilings are reviewed and approved by the Deputy Minister of Budget and Fiscal Accounting and, ultimately, by the Minister of Economy and Public Finance. The defined ceilings are communicated to each ministry, department and organization by an express note, which also indicates the deadline for the submittal of each entity's preliminary draft budget.

140. As described for dimension (i), the MEFP prepares and issues budgetary directives for each fiscal year. Despite having comprehensive and clear information for the formulation, the directives do not include ceilings. It was established in the discussion above that these ceilings are communicated later in the process, but usually with a substantial delay (as shown in Table 3.8. Consequently, the institutions are left with no more than two weeks to adjust their institutional drafts. For the 2009 budget exercise, in particular, there were only 5 days between the communication that set the institutional ceilings and the deadline established for the submittal of the corresponding preliminary drafts by the ministries, departments, and organizations. This was a relevant factor in the evaluation of this dimension.

141. The Cabinet becomes aware of the draft budget (without having to approve it formally) only when the entities have submitted their respective preliminary drafts and just a few days before the budget bill is due to be submitted to Congress. Thus, the Cabinet only examines the draft budget after all institutions have completed the presentation of their preliminary drafts, thus reducing the opportunity for the Cabinet to introduce adjustments. After communicating the expenditure ceilings, there are no formal meetings between the MEFP and the institutions. However, some informal meetings may take place between MEFP staff or authorities and some institutions after the programming guidelines have been approved but before the dissemination of the ceilings.

142. Some institutions do not submit their specific drafts or do not comply with the ceilings or with some specific standards included in the directives. When this happens, the MEFP formulates (based on previous years) or reformulates their preliminary budgets in the budget bill to be approved by the Executive, before sending the aggregate draft to Congress.

(iii) Timely budget approval by the Legislature

143. Congress did not approve the budget bills for FY2007, FY2008, and FY2009 within the 60-day period mandated by the Constitution for its review and approval, and consequently the budget bill submitted by the Executive was enacted into law after said date (this process is presented in greater detail in PI-27).

144. Following the approval procedure described above, the 2008 and 2009 budget bill entered into force before the start of the fiscal year because both bills were submitted toward the end of October of the previous years. However, since the budget bill for FY2007 was only sent in November and Congress did not approve it within the Constitutionally mandated 60 days limit, it had to enter into force at least some days after the beginning of the execution period. More importantly, the fact is that in the three years under review, Congress did not complete the scrutiny of or explicitly approve the budget bill.

145. ***Reforms.*** The new Constitution (paragraph III, article 321) approved in 2009 added that the Executive is required to submit the annual budget bill no later than two months before the end of the previous fiscal year (fulfilling requirement of submittal to the 30th regular meeting of the Assembly and, without Congressional approval within 60 days, the budget as submitted by the Executive takes effect with action). Therefore, starting with the 2010 budget formulation process, the Executive will have to send the budget bill no later than end of October, and thus the budget will necessarily become effective before the start of the execution period.

Indicator	*Score*	*Explanation*
PI-11 Orderliness and participation in the annual budget process	**D+(*)**	**Scoring Method 2**
(i) Existence of and adherence to a fixed budget calendar	C	There is a clear annual budget calendar, but it is rudimentary since it does not include dates/deadlines for the intermediate stages, and it is usually complied to with delays. The time given to the ministries, departments, and organizations to make detailed estimates is short, at least in the case of the 2009 budget.
(ii) Guidance on the preparation of budget submissions	C	The ministries, departments, and organizations are sent a note explaining their expenditure ceilings less than one month in advance and the Cabinet becomes aware of the draft budget after the deadline for submittal of the preliminary drafts by each institution, and only days before the submittal to Congress.
(iii) Timely budget approval by the Legislature	D	Congress did not approve the budget within 60 days of its submittal, and the bill sent by the Executive become effective as mandated by the Constitution, without the express approval by Congress.

(*) The overall score for this indicator is fundamentally affected by the following aspects: (a) the period of less than a month that the entities are given to prepare their drafts since the ceilings are communicated—these are not included in the directives (a higher score would require at least between four and six weeks); (b) the fact that the Cabinet only becomes exposed to the draft after the entities have presented their respective preliminary budgets, and there is no express Cabinet approval of the ceilings, as would be required for higher scores; (c) the lack of a budget expressly approved by Congress.

PI-12 - Multi-year perspective in fiscal planning, expenditure policy, and budgeting

146. Many expenditure and income policy decisions carry implications that go beyond the budget year, which makes it desirable to have a mPI-term vision when formulating the annual budget, with multi-year forecasts (indicative) for revenues, expenditure, economic outcome, and financing; and making this vision explicit.

(i) Preparation of multi-year fiscal forecasts and functional allocations

147. The development of the "Dignified, Sovereign, Productive and Democratic Bolivia to Live Well" (National Development Plan) for 2006-2011 (dated June 2006, but legally enacted through a 2007 decree) is a major effort to analyze the basic guidelines and general policy principles within a multi-year perspective. The plan specifies gradual fiscal deficit reduction forecasts from 2007 to 2.1 percent of GDP in 2011 within an average product growth scenario

of 6.3 percent per year, with aggregate revenue, expenditure, results and, financing projections of the public sector as a whole for the specified time period.

148. Both the guidelines to formulate the 2008 budget and those for 2009 specify that the institutions should consider the National Development Plan development objectives, as well as the strategic targets and sectoral indicators, to develop their institutional budgets and their Annual Operating Program (*Programa Operativo Anual*).

149. However, the link between the annual budget bill submitted to Congress and the National Development Plan is quite tenuous. The aggregate fiscal estimates presented in the budget bill reflect the most recent circumstances and thus significantly differ from the aggregates presented in the National Development Plan. The fiscal aggregates are only presented for the year for which the budget is prepared, without specifying forecasts for future years.

(ii) Scope and frequency of debt sustainability analyses

150. The authorities have conducted several analyses of public debt sustainability, including both the central government external and domestic debt. Thus, in the 2007 Fiscal Report (*Memoria Fiscal 2007*) a conventional analysis was presented, using long-term GDP growth trend of 3 percent and an average interest rate of 6 percent, concluding that (under these assumptions) a primary surplus of 1.2 percent of GDP is required to maintain the total public debt constant as a percentage of GDP.[41] Likewise, the Vice Ministry of Treasury and Public Credit has developed in each of the last 3 years (2006, 2007 and 2008) internal documents on the sustainability of the public debt, covering both the domestic and the external debt, considering different scenarios. A similar study is being planned for this year, 2009.

151. The IMF prepares and disseminates public debt sustainability analyses in their reports related to Article IV consultations. For Bolivia, the IMF included the report, *Bolivia—External and Public Debt Sustainability Analysis* (December 11, 2008), in said annual report. This analysis relies on base-case forecasts for the period 2009 to 2027. The analysis in essence assumes a real average annual GDP growth of 4 percent and the reduction of a small fiscal deficit forecasted for 2009 to a balanced situation, on average, for the period 2010-13. This average very gradually deteriorates to 1 percent of GDP deficit toward 2027. The IMF then introduces the usual stress tests. The IMF made similar analyses in its annual reports for Bolivia in June 2007 and June 2006.[42] Officials from the General Directorate of Public Credit reported that after a training workshop, they collaborated and participated in the development of the last debt sustainability analysis which was presented in the IMF report. However, the macroeconomic assumptions and the fiscal target for 2009 do not match those used for said year's budget, perhaps because they were made on different dates, and quite different from those presented in the National Development Plan.

[41] Ministry of Finance, "Memoria Fiscal 2008.

[42] Based on information prior to 2007, public debt sustainability estimates were made both in studies supported by the World Bank (Mollinedo and J. Velasco, "*La gestión y la sostenibilidad de la deuda en Bolivia*", working paper, World Bank, La Paz, 2005) and summarized in World Bank, *Cómo se gasta el dinero público,* Pubic Expenditure Review, June, 2006, and Daniel Artana, *Tópicos macro-fiscales y perspectivas de sostenibilidad fiscal en Bolivia,* Serie de Estudios Económicos y Sociales, RE1-07-005, Inter-American Development Bank, May 2007.

(iii) Existence of sector strategies with multi-year costing of current and investment expenditure

152. Consistent with the National Development Plan, the Vice Ministry of Strategic and Multi-year Planning in coordination with the MEFP and other areas in the Ministry of Development Planning, is carrying out a process to develop multi-year strategic plans, first sectoral and then institutional, although this work has not yet been completed.

(iv) Linkages between the investment budget and forward expenditure estimates

153. For an investment project to be included in the budget and therefore be executable, it needs to have been registered in the National Public Investment System (SNIP) and in the Investment Information System (SISIN.) In addition, the required pre-investment studies must have been completed (article 28 of Supreme Resolution No. 216768). In the pre-investment phase, the studies need to include not only the estimated investment costs but also operating costs and if a different entity will bear the operating costs, an explicit agreement between both entities is required (articles 15 and 28 of Supreme Resolution No. 216768).

154. For investment projects rated as major (over one million Bolivians) the Integrated Technical, Economic, Social and Environmental Assessment (*Estudio Integral Técnico, Económico, Social y Ambiental*) required for its approval must include a technical analysis on the determination of the project's investment costs and operating costs (article 14 of Ministerial Resolution No. 20/2007, Basic Pre-investment Rules.) Finally, the opinion issued by the maximum authority of the executing unit must certify, among other things, that the project is sustainable in the operating phase and thus it is included in the information contained in SISIN (article 11 of Ministerial Resolution No. 612 of 1997.)

155. Both the budget rules (article 21 of Supreme Resolution No. 225558 and the recent guidelines on budget formulation) and those that govern public investments (article 6 of Supreme Resolution No. 216768) make reference to the fact that the projects included in the budgets submitted by the institutions should be referenced and consistent with the various plans. However, the transition to sectoral or institutional strategic plans has not yet been made, and the relation of the budget with the National Development Plan is weak.

156. ***Reforms.*** In accordance with article 49, paragraph b) of Supreme Decree No. 29894 (February 2009) approving the Organizational Structure of the Executive Branch of the Plurinational State (adjusting to the Constitution), the Vice Ministry of Strategic and Multi-year Planning of the Ministry of Development Planning has the following responsibility:

> Formulating the medium- and long-term fiscal and budgetary policy expressed in the Multi-year Macroeconomic Fiscal Framework based on the Economic and Social Development Plan, in coordination with the pertinent ministries.

157. Article 51 of Supreme Decree No. 29894 sets out the remit of the MEFP to develop the annual budget and formulate macroeconomic policy in general. Based on these potential mandates, which are still being contemplated, there are plans to explore the possibility of beginning development of a medium-term macro-fiscal framework. Up to the period of this review, despite progress in developing 24 sectoral plans, only 7 of these included the full cycle of programs and projects to begin working on cost issues, but none has been completed.

158. On the other hand, the Vice Ministry of Multi-year Strategic Planning is working in developing a macroeconomic consistency model, including a three-year horizon, which in coordination with the ministries will allow for implementation of multi-year budgetary programming and developing a medium-term macroeconomic fiscal framework. Likewise, a computable general equilibrium model for the Bolivian economy is under development, including a 10-year forecasting horizon, to track the National Development Plan in the economic and social fields. These two models will set the basis for multi-year macroeconomic and budget programming, and it is estimated they will be completed before the end of the current administration.

Indicator	Score	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy, and budgeting	**C (*)**	**Scoring Method 2**
(i) Preparation of multi-year fiscal forecasts and functional allocations	D	No estimates of fiscal aggregates are made, going beyond the respective fiscal year.
(ii) Scope and frequency of debt sustainability analyses	A	An annual public debt sustainability analysis is made, including both domestic and external debt.
(iii) Existence of sector strategies with multi-year costing of current and investment expenditure	D	Although progress is being made in preparing sectoral strategies for some sector or institutions, work has not yet been carried out to determine costing of investment expenditure and its recurrent costs, or for other current expenditure.
(iv) Linkages between investment budgets and forward expenditure estimates	C	Investment decisions have weak linkages with plans and, although information and commitment regarding the operating cost of investment works is required, these are not incorporated into forward budget estimates.

(*) The average score for this indicator is mainly affected by the lack of estimates of multi-year fiscal aggregates [dimension (i)] and the lack of sectoral strategies with multi-year cost determination.

3.4 Predictability and Control in Budget Execution

159. The following group of indicators focuses on evaluating the extent to which the budget is applied in an orderly and predictable manner, and the existence of control and oversight mechanisms for the use of public funds.

PI-13 Transparency of taxpayer obligations and liabilities

160. Revenue collection is the responsibility of the National Tax Service and the National Customs of Bolivia. Both agencies are decentralized and autonomous public institutions, with legal standing in the field of public law; their own assets; and economic, administrative,

functional, technical, and financial independence. They are both managed by a Board, nominated by the President of the Republic with Congressional approval. The main function of the National Tax Service is to administrate, collect, and monitor compliance with domestic taxes, while the National Customs is responsible for controlling the passage of goods through borders, and collecting the duties and taxes on Bolivian foreign trade.

161. It should be noted that the National Tax Service and National Customs have undergone in-depth modernization processes since 1991 and 1997, respectively. Such processes were based in the independent recruitment of professional staff, procedure redesign and simplification, intensive use of information and communication technologies, strengthening internal control, and increasing compliance monitoring and control.

162. Most of the processes in both institutions are conducted with computer support, with all the registration, reporting, assessments and payments being maintained in electronic media, as well as on paper. Taxpayers may conduct some proceedings, in particular filing tax returns, electronically (Da Vinci System). In the case of the National Customs, customs agents process most of the proceedings through the SINUDEA system on behalf of the users.

(i) Clarity and comprehensiveness of tax liabilities

163. The Tax Code, the main tax and customs regulations (and associated regulations), is the essential legal reference with regard to taxes. This legislation is available in the Official Gazette of Bolivia and the portals of each entity.[43] The regulations have been stable and the only important change refers to there being no period of limitation for taxes, a rule included in the new Constitution. This rule declares that no period of limitation apply to tax liabilities and crimes of that nature. It is not clear under the rule whether tax events also fall under such regulations. In discussions held in this regard, the Vice Ministry of Tax Policy reported that they were reviewing the issue of clarification, in the sense that the tax events that are not criminal or firm debts will be subject to the common tax period of limitation. Both National Tax Service and the Vice Ministry of Tax Policy agree in maintaining the limitation terms established in the Tax Code.

164. The tax legislation is considered to be comprehensive and clear although very extensive. The discretionary powers of the National Tax Service and National Customs of Bolivia are subject to strict limitations, based on explicit criteria. In general, the law must be enforced, and the rates or the taxable base are not negotiable.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

165. A large group of taxpayers have access to information that is readily available and updated on tax liabilities and tax administration procedures in connection with some of the main taxes.

166. There is an Area of Taxpayer Service, which in some cases conducts mass awareness campaigns for taxpayers to comply with the formal duties, using bulletins, web pages, taxpayer service platforms, television and radio campaigns, and other media. Likewise, there are training courses for potential and actual taxpayers, and tax education campaigns targeted at school and university students. The National Tax Service and National Customs websites also

[43] www.impuestos.gov.bo and www.aduana.gov.bo.

provide tax information although the access routes could be improved and increased. On the other hand, there is printed material distribution to taxpayers who have limited Internet access. Such material is available in Spanish, and also the Quechua and Aymara languages. Another available program is "distance training" using information and communication technology through which tax culture courses are provided. In addition, there is a free call center for tax enquiries.

167. Internally the National Tax Service has a Taxpayer Current Account (*Cuenta Corriente del Contribuyente*) System, which has been operative for several years for all main taxpayers (*principales contribuyentes, PRICO*), large taxpayers (*grandes contribuyentes, GRACO*), and exporter taxpayers, with the aim of having greater control over these types of taxpayers who have greater fiscal relevance. Going forward the National Tax Service plans to make this information available to large and main taxpayers and exporters, while in turn expanding it to other types of taxpayers.

(iii) Existence and functioning of a tax appeals mechanism

168. A tax legal recourse mechanism operates under administrative procedures through the Tax Complaints Authority (formerly called Tax Superintendence) and under the jurisdiction of the Tax Administrative Courts (as a result of a decision by the Constitutional Court that allowed for the application of these courts as an alternative). This situation could lead to disparate or conflicting jurisprudence on similar tax events although no contradictions of this nature have been detected. The Vice Ministry of Tax Policy is studying a reform to the appeals system that could include specialized tax courts, independent from the Executive Branch.

169. During 2008, a result of the application of this mechanism, 1,027 new cases were filed and accepted, of which the Tax Complaints Authority has ruled on 664 cases, including appeals.

Indicator	*Score*	*Explanation*
PI-13 Transparency of taxpayer obligations and liabilities	**B+**	**Scoring Method 2**
(i) Clarity and comprehensiveness of tax liabilities	B	The tax legislation in Bolivia is comprehensive and strictly limits National Tax Service and National Customs of Bolivia discretionary powers. There is ambiguity regarding the statute of limitation on tax events. The new Constitution has declared tax crimes and debts under a firm decision of the jurisdictional court have no limitation period, which is a good measure. However, by leaving the tax events in the same category, the taxpayer liabilities would be uncertain and could remain at the discretion of the Tax Administration.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	There are Taxpayer Service units and large taxpayers have access to enquiries. There are tax education programs and the National Tax Service website provides information to the rest of the taxpayers. There is also printed material available for taxpayers with limited Internet access. This information is available in Spanish and in the Quechua and Aymara languages.
(iii) Existence and functioning of	B	Appeals are filed before agencies that are

a tax appeals mechanism		independent from National Tax Service and National Customs of Bolivia, although the taxpayer may choose to file before the Complaints Authority or the administrative judicial courts.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

170. Taxpayers are registered in a Taxpayers Registry. This is a computer registry kept by the National Tax Service, which contains the taxpayers' identification data and tax obligations. After their registration with such registry is confirmed, taxpayers receive a tax identification number (*Número de Identificación Tributaria, NIT*) that identifies them with the National Tax Service. This number is permanent, unique, and used exclusively by its holder. The use of the tax identification number is mandatory for any proceeding carried out before the tax administration and the National Customs (all custom returns should contain the tax identification number). All domestic or foreign individuals or legal persons, undivided estates, de facto companies, or other collective entities, domiciled within or without the country, that are taxpayers and/or bear taxes managed and/or collected by the National Tax Service and National Customs must register. The Tax Service conducts campaigns for the registration of new taxpayers, in particular small taxpayers. Anyone who deals with National Customs must register with the exporters' registry, and the tax identification number is mandatory for them. The Taxpayers Registry is linked to other public registry systems, such as the civil and electoral registry. Checking data against other registries (e.g., commerce) would reduce the risk of registration of fraudulent taxpayers and could improve data cross-checking for improved tax surveillance.

(ii) Effectiveness of penalties for non-compliance with registration and reporting obligations

171. There are several regulations in the Tax Code and resolutions of the National Tax Service Board establishing a clear framework of penalties for the so-called formal lack of compliance (registration, reporting and, payment of taxes.) Specifically, the Tax Code (Section 162, Law 2042 of 2003 and Executive Decree 27310, Sections 40 and 21 of 2004) empowers the National Tax Service Board to establish penalties for non-compliance. Resolution 10.0037.07 of December 14, 2007 consolidated the penalties framework and the procedures to enforce penalties for non-compliance for failure to register, failure to report or late reporting, lack of invoicing, lack of tax payment or late payment, among other offenses.

172. The applicable penalties range from simple fines up to the temporary closure of the taxpayer's store for not issuing an invoice, and also contemplate attachments.

173. The penalties are applied in an objective manner and graded in accordance with the seriousness of the offense, established in the above-mentioned rules. All the formal obligations are established under a Regulatory Resolution of the Board with the respective penalties (i.e.,

each lack of compliance has a defined penalty, without room for any discretion on the part of the officials that enforce them).[44]

(iii) Planning and monitoring of tax audit and fraud investigation programs

174. On an annual basis National Tax Service develops tax audit and control plans based on general controls and in-depth audits. The National Tax Assessment Management develop the plans, and management control and monitoring is the responsibility of the Operating Evaluation and Quality Control department, reporting to the same Manager. In the case of general controls, field visits are conducted to verify the registration of taxpayers, the issue of invoices in the stores responsible for doing so, and compliance in terms of filing tax returns and paying taxes. During 2008, these controls led to a total of 1776 closures. In the case of the audits, these belong to several types, with the main ones being in-depth audits of large taxpayers, cross-checking data regarding compliance with the domestic value added tax and auditing value added tax reimbursements to exporters. In all cases risk criteria are used to determine which taxpayers will be controlled and in what areas they will be audited. In 2008 there were over 20,000 control and audit actions, which represented an effective collection of Bs 29,383,000.

175. On the other hand, the National Customs of Bolivia also conducts ex-post audits through the National Compliance Assessment Management, based on risk criteria. These audits focus on custom agents and importers with the purpose of verifying the value and special regimes such as Free Zones and warehouses, in order to verify if the duty-free inventories have been cleared paying duties, re-shipped or re-exported, as may be the case. There are also audits of the franchise regimes, e.g. diplomatic ones.

176. Although there are automatic and upon request data exchanges between the National Tax Service and the National Customs of Bolivia, there are no coordinated audit plans or joint compliance inspection teams.

Indicator	*Score*	*Explanation*
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**B+(*)**	**Scoring Method 2**
(i) Controls in the taxpayer registration system	B	Taxpayers are registered in the Taxpayer Registry under a unique and permanent taxpayer identification number and with linkages with other public registry systems, such as the civil and electoral registry.
(ii) Effectiveness of penalties for non-compliance with registration and reporting obligations	A	The penalties cover all the most important areas of non-compliance (evasion, missing inventories, lack of payment, or payment in arrears.)
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	There is an audit strategy with clear and detailed risk evaluation criteria that comprises the major taxes and compliance with the formal requirements. The coordination between the National Tax

[44] Some examples of the penalties applied include closures, which is exemplary (over 100 closures per month). On the other hand, the effectiveness seems to be quite high since only 1,027 cases were appealed in 2008, a minimum share of the penalties applied, which were close to 20,000.

		Service and the National Customs of Bolivia for compliance assessment purposes is limited to data exchanges. Improving the coordination across both entities, for example, with a joint foreign trade compliance assessment force would reduce the risks of evasion, particularly of value added tax.

(*) In spite of the good performance observed for this indicator, it should be noted that the average score is somewhat affected by the performance of tax audits that currently are restricted to exchange of information between the National Tax Service and the Customs agency, but that cannot be considered a general audit plan, as would be required for a higher score.

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

177. In 2007 and 2008, the debt recovery ratio was 93 percent and 93 percent, respectively, resulting in an average of 93 percent for those years, as shown in Table 3.9.

Table 3.9 Debt Recovery Ratio

2007	***2008***	***2007-2008 average***
93%	**93%**	**93%**

Source: Statistics supplied by the National Tax Service.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

178. Taxpayers make all their payments through the banking system where the National Tax Service and the National Customs have established separate operation agreements with said entities.

179. The control and monitoring of the tax revenues on collections is made on a daily basis through the transfers to the National General Treasury into the Single Treasury Account, with a one-day delay in the case of private banks. This is regulated by the above-mentioned individual agreements with private banks and the current regulations on tax sharing. In the case of the National Customs, the situation is identical although it has separate agreements.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury

180. The National General Treasury carries out reconciliations between the collections and the assessments, one month in arrears. On the other hand, the National Tax Service reconciles the electronic returns received with the payments made in the banks. In the case of the National Customs, the customs agent or user is required to present the payment receipt to be able to withdraw the goods so that in addition to the reconciliation of the electronic files with the total

collected by banks, there is a one-on-one control of the documents submitted to the National Customs.

Indicator	*Score*	*Explanation*
PI-15 Effectiveness in collection of tax payments	**B+**	**Scoring Method 1**
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	A	The average tax debt collection ratio was 93% (2007-2008).
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	Tax revenue collections by National Tax Service and National Customs (internal and customs taxes) to the National General Treasury are transferred daily even though each agency has separate agreements.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	B	Complete and regular reconciliation takes place on a regular (monthly) basis, although on occasion there are delays.

PI-16 Predictability in the availability of funds for commitment of expenditures

181. Bolivia executes its cash budget using a variety of modern tools and techniques designed to restrict violations to fiscal discipline at the macroeconomic level. The Vice Ministry of Treasury and Public Credit has a group dedicated to preparing an annual cash plan —using standard techniques—and based on the Central Bank of Bolivia information, planning, and other MEFP efforts, which include the budget and policies. While Bolivia is subject to oil price volatility, it has implemented and is using cash techniques that are consistent with the international good practice to better reflect the performance of the variables.[45]

(i) Extent to which cash flows are forecasted and monitored

182. The Treasury develops annual cash plans using reliable methods and updates them on a daily basis with actual income and expenditure from SIGMA. The IMF reviewed cash planning in November 2008 and found that it was adequate to achieve an acceptable level of reliability, even with oil price fluctuations recorded in 2007 and 2008. The cash plan is prepared together with the Central Bank, which makes daily cash forecasts and coordinates with the Treasury, enabling the issue of weekly and monthly reports, as well as more formal quarterly reports and updates.

183. The cash plan is the responsibility of the Vice Ministry of Treasury and Public Credit through the General Directorate of Treasury Programming and Operations; while the budget ceilings are allocated by the General Directorate of Budget Programming and Management, when the National General Budget is approved. This is a normal arrangement to the extent that the budget execution is divided into two different portions in a modern well-managed system: (a) the budget authorization allocation (in this case, the annual ceiling determined by the National General Budget and uploaded into SIGMA, as a control); and (b) cash management (in this case, the ceiling allocation, which is made by the MEFP-based Treasury, through

[45] During the mission conducted in November 2008, the IMF commended efforts and results obtained in the area of treasury and cash management.

monthly "commitment quotas" for investment expenditure and quarterly quotas for current expenditure.)

(ii) Reliability and horizon of periodic in-year information to ministries, departments, and organizations on ceilings for expenditure commitment

184. Although annual budgetary ceilings are made available to ministries, departments, and organizations at the start of the fiscal year once the National General Budget has been approved, they can be controlled and somewhat reduced in accordance with cash availability. In 2006 and 2007, for example, the initial budget was significantly reduced to maintain an aggregate fiscal discipline in view of the changes in revenues. Therefore, although the annual amounts approved in the budget constitute an authorized ceiling for the year that cannot be exceeded, the institutions cannot have total certainty regarding the full availability of resources to execute expenditure for that amount, but rather the permission to use the funds is effectively granted on a monthly basis through the commitment quotas that constitute cash ceilings, which may force the ministries, departments, and organizations to delay new commitments and/or some payments.

185. Commitment quotas, monthly and quarterly, are authorized by the Treasury in the same system (SIGMA) and are available to the ministries, departments, and organizations on the first day of each month for investment expenditure and on the first day of the quarter for current expenditure. Cash execution should always be within the limits of the budget authorization—without ever exceeding them. The limits of the monthly treasury expenditure (commitment quotas) are allocated to the central government implementing entities on the first day of each month, and reflect any changes in income and expenditure that alters the ceilings assigned by the budget at the start of the year. In accordance with international good practice on budget execution, such ceilings must be within the budgeted categories. As a technique to ensure macro-fiscal discipline, the MEFP has put in practice certain criteria to determine the commitment quota in accordance with the type and class of expenditure (e.g., 100 percent availability is authorized for expenditure in group 100, such as salaries which are mandatory, and 80 percent for other groups of expenditure such as goods and services, which are controllable).

186. The interviews with authorities from ministries, departments, and organizations and the MEFP indicate that there are informal processes, albeit documented ones, to increase the limit of monthly commitment quotas for justified reasons for certain expenditure items and taking into account criteria of expenditure seasonality (e.g., for the procurement of assets) and always within the limits of the annual budget. Thus, the Treasury may change the timing of budget availability provided it coincides with cash availability. SIGMA reflects all ceilings per expenditure category and operates as the commitment control.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of ministries, departments, and organizations

187. Good budget execution requires predictability and transparency from the programming perspective. The ministries, departments, and organizations receive an annual allocation and expenditure ceiling but also need to know the extent to which it is likely they will effectively receive the authorization to spend that amount of money. Frequent and significant budget modifications are an important element that reduces such predictability. Under such principles,

this dimension refers to the number of budget modifications and the transparency with which they are approved.

188. The budget modifications during the execution period (going beyond reformulations within one institution) have been substantial, representing a total increase in the budget of central government entities of almost 50 percent as compared to the original approved one, and a higher level in a good share of entities separately. However, budget amendments are regulated by law, and need to be made in a legally transparent way.

Table 3.10 Inter-institutional Expenditure Budget Amendments

Authorizing instance	***Amount (millions of Bolivians)***
Law approved by Congress	34,392.2
MEFP	31,387.4
Vice Ministry of Budget and Fiscal Accounting	90,385.5
Vice Ministry of Public Investment and External Financing	1,102.6
Through resolutions of both entities (Vice Ministry of Budget and Fiscal Accounting, and Vice Ministry of Public Investment and External Financing)	1,893.1

Source: Recorded in SIGMA, 2008.
Note: Including expansions, reductions, and transfers.

189. The Budget Administration Law (Law No. 2042 of December 1999) provides that Congress allows the Executive to make broad budget modifications, both within and across institutions, something that in fact occurs. The royalty and tax-sharing transfers are made according to rules independently from the original budget, which in 2008 implied an increase in the original budget amounts.

190. It is a usual practice for the Executive to submit to Congress for approval a substantial amendment once a year as done in period 2006-2008. In 2008, Congress approved an additional budget of 34.381 billion Bolivians—representing an aggregate budget increase for the whole public sector of 31 percent over the original approved one—in addition to other transfers and authorizations.

191. Furthermore, the Constitution empowers the President to decree payments not included in the Budget to address clear emergencies for an annual amount not in excess of 1 percent of the total expenditure approved in the budget. Using this criterion, the President approved emergency expenditure that was mostly included in the Congress-approved budget expansion.

192. Thus, although the Executive has the power to package the bulk of increases and transfers that are submitted to Congress for approval, there is another group of budget modifications that result from the fiscal revenues tax-sharing regulations and other provisions that are available to the Executive; these have been used quite frequently and are significant in the aggregate. Likewise, as described in more detail in the analysis of PI-27, some budget amendments approved by Congress were ratifications of actions carried out by the Executive.

Indicator	*Score*	*Explanation*
PI-16 Predictability in the availability of funds for commitment of expenditures	***C+ (*)***	***Scoring Method 1***
(i) Extent to which cash flows are forecasted and monitored	**A**	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
(ii) Reliability and horizon of periodic in-year information to ministries, departments, and organizations on ceilings for expenditure commitment	C	In 2008 the ministries, departments, and organizations had reliable information available for investment expenditure on a monthly basis and every quarter for current expenditure.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of ministries, departments, and organizations	C	Although budget adjustments are legally transparent and the budget increase requests to Congress are assembled into a single request per year, there are strong and frequent adjustments across institutions.

(*) According to the scoring Method 1 applied for this indicator, the global C+ score is based on dimensions ii) and iii), which had a score below C because the time horizon of the expenditure commitment quotas is monthly (a higher score would require a quarterly or half-yearly horizon); and, on the other hand, although the budget adjustments are transparent and are submitted to Congress at a single time, there are other frequent and significant adjustments across institutions. However, the overall score recognizes the favorable performance of having cash forecasts updated on a monthly basis, wherefore a + sign is allocated.

PI-17 Recording and management of cash balances, debt, and guarantees

193. Bolivia has carried out a rigorous reform in the control of its sovereign debt after its debt was massively cancelled in recent years, basing its debt authorization and recording policies on the Constitution (old and new) as well as on Law No. 2042 and the Basic Rules of the Public Credit System. These regulations are consistent with international standards with regards to fiscal sustainability, unity approval of the authorization based on transparency criteria, and the routine and comprehensive presentation of full information on sovereign debt.

194. The Minister of Economy and Public Finance is deemed senior authority of the Public Credit System within the borrowing limits established by its portfolio. Article 39 of the Basic Regulations of the Treasury and Public Credit System provides that the Minister will contract, on behalf of the Treasury or the entity responsible for the service, any external public debt and doing so with the international cooperation. On the other hand, it provides that within the borrowing limits and terms established in the same regulations, and under the responsibility of its senior executive authorities, public sector entities will be able to contract short- and long-term domestic debt. Within that framework, any loan contracted by the central government for its financing will be subject, additionally, to a review of its objectives, sustainability, and relative priority, as part of the process of obtaining a Supreme Decree.

195. The MEFP also reviews the loan applications of any other entity, including the request for guarantees prior to contracting, through the mechanism of Registration of Initiation of Public Credit Operations, described in the analysis of PI-9. The review by the General Directorate of Public Credit (*Dirección General de Crédito Público*) and MEFP includes a limit of 20 percent of the recurrent current income of the previous year for the service of the

aggregate debt and a debt ceiling of 200 percent of the same income, established in Law No. 2042 of Budget Administration for decentralized, autonomous, and self-governing public agencies. The Central Bank of Bolivia also reviews external loan applications in representation of the MEFP, in accordance with the provisions of Law 2042 and the Basic Rules of the Public Credit System.

196. All the information on loan applications and the loans themselves, throughout their life, are recorded in SIGADE, the automated foreign debt management administration information system (consistent with the respective UN international standards), which is linked to SIGMA through an interface (SIGMA Link). Foreign debt is recorded by the Central Bank and domestic debt by the General Directorate of Public Credit. All borrowing activities are updated in real time in SIGADE, with the aim of reflecting all the basic elements (information regarding debt stock, service and generation).[46] The General Directorate of Public Credit and the Central Bank review the monthly updates, and there are monthly reports available on their web page.

197. Summarizing, the General Directorate of Public Credit has developed good, basic, and transparent processes for debt support and approval. The Central Bank is a party in the development, structuring, and management of external loans and guarantees. The MEFP manages the application review processes and the criteria for domestic loans, as well as the proceedings related to any financing required by the central government.

198. Efforts are underway to develop a robust borrowing policy. An inter-ministerial committee was set up in the third quarter of 2008 to address this need but has not yet started the development of a debt policy.

(i) Quality of debt data recording and reporting

199. SIGADE is used to record each debt (domestic and external) and guarantee, with details on all its major data. The General Directorate of Public Credit maintains a consolidated view of the nation's aggregate public debt, including the guarantees and contingent liabilities. The interface developed with SIGMA (SIGMA Link) allows SIGADE operations and records to be registered directly in SIGMA, as an example, for debt service. The domestic and foreign debt records are complete and are updated and reconciled at least once a week for internal purposes, and the data are considered to have a high integrity. Public Credit updates SIGADE on an ongoing basis and issues internal weekly and monthly reports; the latter are available on the MEFP webpage, but official reports are only issued annually.

200. ***Reforms.*** In 2008 the Inter-Ministerial Public Debt Council (*Consejo Interministerial de la Deuda Pública*) was established with the purpose of addressing and ensuring that the public debt management strategy will be dealt with at the highest level.[47]

[46] An IMF mission reviewed the records in November 2008 and found they reflected appropriate information.
[47] Members of the Inter-Ministerial Public Debt Council include the Minister of Economy and Public Finance, the President of the Central Bank, the Development Planning Minister, the Minister of Foreign Relations, the then-Decentralization Deputy Minister (current Minister of Autonomies), and the Deputy Minister of Public Investment and External Financing.

(ii) Extent of reconciliation of the government's cash balances

201. Bolivia has established a Single Treasury Account and, through Central Bank services, its cash balances are consolidated on a daily basis. There are two accounts: one in local currency and the other in foreign currency. Both are in the Central Bank, managed as a virtual Single Treasury Account. As such, the time-value of the funds is maximized, and the need for loans and related charges is minimized, while significantly avoiding arrears.

202. SIGMA produces real-time reports. The excellent skills in the Treasury's cash management of the MEFP supplement the cash forecast prepared by the Treasury, ensuring that the budget execution is carried out with the highest competence level.

203. Every night, all collection accounts remain with a zero balance and all the payments are debited from the Central Bank only after the corresponding banks have completed the payments, except in the case of pensions and other cash payments. The elimination of cash payments is problematic in rural areas.

(iii) Systems for contracting loans and issuance of guarantees

204. All loans and guarantees of any public entity in Bolivia need to be approved by the MEFP, which becomes one of the parties to the contract and channels the funds to the implementing agency (Law 2042 and Basic Regulations of the Public Credit System). Any decentralized, autonomous, or self-governing public entity that wishes to use borrowed funds for public purposes has to request from the MEFP the Registry of the Initiation of Public Credit Operations, under the procedure described in PI-9. Thus, the MEFP is the only authority with powers to authorize loans and guarantees under transparent criteria and within the framework of defined fiscal targets.

Indicator	Score	Explanation
PI-17 Recording and management of cash balances, debt, and guarantees	**A**	**Scoring Method 2**
(i) Quality of debt data recording and reporting	**B**	Domestic and foreign debt records are complete, and they are updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.
(ii) Extent of reconciliation of the government's cash balances	**A**	The calculation and consolidation of cash balances take place daily.
(iii) Systems for contracting loans and issuance of guarantees.	**A**	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

(*) Although the management reports and comprehensive debt statistics are annual and not quarterly as a better score would require, as a result of the Method 2 scoring, the average score for this indicator benefits from the good performance in dimensions (ii) and (iii).

PI-18 Effectiveness of payroll controls

205. The legal framework regulating the operations connected with the public sector payroll at the central government level is established in the Basic Regulations of the Personnel

Management System (*Sistema de Administración de Personal*) issued by the MEFP as lead agency and approved by Supreme Decree No. 26115 (of March 16, 2001). The framework is closely linked with the regulations in force governing the internal control, budget, treasury, and integrated government accounting systems.

206. Specifically, the Law of Budget Administration No. 2042 (December 1999) establishes the requirements for approval of changes in the structure of positions, salary scale, and payroll budget of any public entity. The Financial Law (National General Budget) establishes limits for the compensation of public servants and controls to ensure pertinence in the expenditure on personnel services.

207. The wages and salaries item, not including social security and other indirect personnel payments, in the Budget Law for 2009 amounts to 13,920,493,146 Bolivians, representing around 10 percent of the total expenditure budget. The total payroll paid under this item comprises 245,000 public servants for 2009 and an average of 240,000 for the last three years. This data reflects the importance of the outlays for this concept, and the consequent need to apply effective controls that ensure care in public expenditure.

208. According to the Basic Standards of the Personnel Management System, the unit responsible for personnel management in each entity is in charge of the management and maintenance of the personnel records. Within that framework, payroll management and control is deconcentrated into each public entity, including managing personnel data, any changes, and preparation of the respective payrolls. Hence, each entity prepares and maintains the original personnel records and processes the payroll to request the corresponding payments of salaries and social security benefits and other personnel-related payments, and it is expected that each entity will enforce internal controls on the development of the payroll.[48] However, one of the important limitations for performance of internal controls lies in the fact that the entities lack homogeneous information systems for database preparation and maintenance, and for the management of personnel payments that can communicate or provide a means for direct verification or cross-checking with SIGMA.

209. Although SIGMA includes a personnel and payroll module, it has not been implemented in all the institutions. Pursuant to information supplied by the Office of Salary Information Management of the General Directorate of Treasury Operations Programming, approximately 70 percent use the SIGMA payroll module, but the coverage at public-official level is very low. The low coverage occurs mainly for sectors such as education, health, police, or defense, which have salary structures that include diverse concepts not proposed in this module.

210. The confidence in the integrity of the data in the personnel forms and databases that the entities may maintain is dependent on the responsibility and quality control of each entity. The current model provides that the entities have to prepare their payrolls in a unique electronic format called Nemesis supplied by the Office of Salary Information Management.

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[48] To that effect, in accordance with the Basic Standards of the Personnel Management System, each entity is required to: (a) record and control the information and actions related to the entity's staff, as well as any changes in it; (b) have a database capable of providing information on the labor records of public officials, to facilitate decision-making; (c) develop a statistics and data-generation system on the main characteristics of the human resources of each public entity; and (d) provide the National Personnel Management Service with information to update the Personnel Management Information System.

211. The National General Budget requires that central government entities send monthly to the MEFP (General Directorate of Treasury Programming and Operations) both hard-copy and electronic formats of payroll spreadsheets of public servants in the respective entities, as well as for people who are paid fees for consultancy services and per diems, independently from the source of financing, type of contract, and mode of payment, including the output-based consulting contracts. This legal provision is aimed at controlling duplicate payments of salaries, pensions, or fees for services rendered to the state and others with public funds.

212. The spreadsheet data received by the General Directorate are inputted into another system called Century in order to check (a) that salary levels do not exceed the limits set out in the National General Budget:[49] (b) that the requested compensation is consistent with the official's level (consistent with the salary structure approved for that entity); and (c) that public servants only collect salary payments from one entity. Of course, this is a global control and it is not aimed at identifying errors or irregularities originating in the administration systems of each entity.

213. Once the spreadsheets have been validated on the above aspects, the same Office of Salary Information Management in the General Directorate of Treasury Operations and Programming (*Dirección General de Programación y Operaciones del Tesoro*) inputs it into each institution's SIGMA as an instrument for accounting and to generate the required approvals and transfers from the National General Treasury for the individual personnel payments. The disbursements are made into the accounts of the Delegate Administrators (correspondent banks) for the direct payment of the salaries. There are two modes of payment: direct deposit into individual accounts for those with a bank account, and delivery of payment vouchers, which may be collected in the corresponding banks, for those who lack a bank account.

214. For the above reasons, the reliability of the internal control system on payroll payments is only derived from the assertions made by the entities on an individual basis. The surveyed entities reported that on a monthly basis they reconcile or cross-check the information between the payroll and the individual personnel records with the information submitted. However, there was no evidence of reports on inconsistencies or other findings resulting from such reconciliations.

(i) Degree of integration and reconciliation between personnel records and payroll data

215. At a general level the budget items on personnel expenditure are well defined and are respected and controlled through SIGMA. No payment concepts to central government public servants outside the system were identified; this is controlled by the budget periods programmed in SIGMA and the checks run by the Salary Administration and Information Unit of the General Directorate of Treasury Operations and Programming. This implies a reasonable level of security at the global level of all the payroll payments.

216. The CENTURY database centralizes payroll information for personnel in each entity, which can be compared to that submitted by the different entities. However, since there is no single system for generating payrolls that allows for integration between SIGMA and the public entities the data exchange formats are used to verify salary levels or check that a public servant is not receiving multiple compensations. Although the entities surveyed reported that at

[49] National General Budget – Fiscal Year 2009, Article 15, Maximum Compensation in the Public Sector.

the time of preparing the payroll reviews of individual records are made, no specific procedure was identified in each entity to reconcile the data of the payroll and the data in each employee's individual record.

(ii) Timeliness of changes to personnel records and the payroll

217. Any changes to personnel records and payroll are updated on a monthly basis. The Office of Salary Information Management of the General Directorate of Treasury Operations and Programming reject any late submittal in the areas it controls, as for example if a change implied modifying the salary level or exceeding the monthly budget appropriation for payroll. To that end, in accordance with the internal control standards, each change is supported by back-up documents such as authorized memoranda, contracts, liquidations, etc. Both those responsible for authorizing and processing payroll payments and the internal auditors disclose that changes are processed in a timely manner and there are no material extemporaneous or retroactive processes.

(iii) Internal controls of changes to personnel records and the payroll

218. As previously mentioned, the Personnel Management System establishes the responsibilities and actions to manage changes in personnel records and in the payroll. In practice, these aspects have been implemented, and thus the power and the basis for the introduction of changes in personnel records and in the payroll are clearly defined in the regulations for each entity and for the recording and submittal of the data to the central administration in SIGMA. The SIGMA authorizes the transfers or payment orders for each employee once the General Directorate of Treasury Operations and Programming has authorized them.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

219. External audits are conducted by the General State Comptrollership, but its annual scope of work for the last three years did not include specific examinations of the central government's payroll liquidation and payment. Consequently, there is no independent opinion available on the quality of the internal control applied in these processes and the care in the execution of the corresponding budget.

220. Although the Internal Audit Units (*Unidades de Auditoría Interna*) conduct an annual general audit of the personnel management system, such audits do not specifically focus on payroll operations and therefore issue no conclusions on the quality of the personnel management system as such. Its focus is rather on identifying and reporting individual transaction issues. In addition, the lack of technical and technological resources in the Internal Audit Unit staff would suggest some uncertainty regarding the effectiveness of such audits.

Indicator	*Score*	*Explanation*
PI-18 Effectiveness of payroll controls	**D+(*)**	**Scoring Method 1**
(i) Degree of integration and reconciliation between personnel records and payroll data	B	The personnel database and the payroll are not always directly linked at the level of each entity. Although the entities surveyed reported that at the time of preparing the payroll they made reviews of the individual records, no specific procedure was identified in each entity to reconcile the data liquidated in the payroll and the data in each employee's individual record. On the other hand, using the specialized application Century, the General Directorate of Treasury Operations and Programming (Vice Ministry of Public Treasury and Credit) controls that the information required for payroll payments does correspond to the authorized levels and that duplicate payments are not made. This is a filter for the quality and integrity of the data since it identifies inconsistencies and results in reprocessing for correction by each requesting entity.
(ii) Timeliness of changes to personnel records and the payroll	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are not common. No substantial delays in the processing of the payroll are reported.
(iii) Internal controls of changes to personnel records and the payroll.	A	There exist review and authorization controls of the changes to the payroll in each entity, based on functions and responsibilities assigned to appropriate levels within the Personnel Management System. Furthermore, a documentary record of the control and authorization of such changes is maintained.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	D	No external audits of payroll liquidation processes are conducted, or of the information systems used in their processing.

(*) Following Method 1 for scoring this indicator, the performance in dimensions (i), (ii) and (iii) is affected by the lack of payroll external audits within the last three years. Consequently the overall score is determined by dimension (iv), but recognizing with a "plus" the better performance in the other dimensions.

PI-19 Competition, value for money, and controls in procurement

221. This indicator focuses on the quality and transparency of the regulatory framework for procurement and in the use of open and fair competition as preferred procurement method, in order to ensure an effective and efficient use of public funds. It is important to note that this is a macro view of the system since it is based on high-level indicators and does not evaluate the performance of the system's detailed processes, which is being evaluated through the OECD-DAC indicators under a separate exercise.

222. Law 1178 of Government Administration and Control of July 20, 1990, establishes systems to control the execution of public funds in a transparent manner, including the Goods and Services Administration System (*Sistema de Administración de Bienes y Servicios*), which regulates government procurement by means of a series of rules of a legal, technical, and

administrative nature for government control, procurement, management, and disposal of goods and services by public entities. The application and use of such systems is mandatory for all public sector entities and all bidders interested in competing under the formulas allowed and included in the Procurement Basic Documents. The whole procurement process is under the direct responsibility of the chief executive authority (*Máxima Autoridad Ejecutiva*) of each entity and the public servants responsible for the procurement process (*Responsable del Proceso de Contratación* and *Responsable del Proceso Autoridad).*[50]

(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases

223. Supreme Decree No. 29190 of July 11, 1970, establishes the modalities and terms for the participation of bidders for the procurement of works, goods, general services, and consulting with use of public funds, ensuring that procurement will be carried out using open competition, except in cases when regulations establish as exceptions or emergencies.[51] The amounts and characteristics of each of these modalities are outlined in Table 3.11 with explanation of National Support to Production and Employment (*Apoyo Nacional a la Producción y Empleo,* ANPE) and other bidding procedures discussed in Box 3.2:

Table 3.11 Modalities of Open Competition

Modality		***Amount range (Bolivians)***
National Support to Production and Employment (*Apoyo Nacional a la Producción y Empleo,* ANPE)	Direct procurement	1 up to 5,000
	With official responsible for the process	5,001 up to 20,000
	With public call for bids	20,001 up to 500,000
Public competitive bidding	Domestic competitive bid	500,001 up to 40,000,000
	International competitive bid	40,000,001 up
Exception-based procurement		No amount limit
Emergency procurement		No amount limit

Source: SICOES.

224. The information on government procurement is concentrated in the State Procurement System (*Sistema de Contrataciones Estatales,* SICOES),[52] which contains data on a majority of the government procurement and the procedures that need to be complied with, including the specific requirements in each case. In accordance with the institutional classifier, 419 entities (90 percent) report their information to SICOES, of which 351 report on line through the Internet. Municipalities without Internet access have the possibility of sending the information on printed forms that are either faxed or mailed (68 entities). Ten percent of the entities do not report their procurement processes to SICOES; this group comprises 46 small municipalities with a population below 10,000 inhabitants. It should be noted that out of the 330

[50] Sections 3 and 4 of Law 1178.
[51] Articles 48 and 49. Supreme Decree No. 29190.
[52] Articles 28 to 30 of Supreme Decree No. 29190

municipalities, 284 report their information. According to SICOES information, more than 90 percent of the procurement recorded is made through open public calls (Table 3.12).

Table 3.12 Procurement Records With and Without Open Calls

Modality		***Number of processes***	***% of number of processes***	***Amount in Bs.***	***% of amount***
With open call	ANPE	41,485	88	2,022,095,981	15
	Competitive bidding	3,387	7	9,965,234,758	75
	Other rules (financed)	687	1	263,539,184	2
Without open call	Direct procurement	783	2	293,026,788	2
	Emergency	521	1	424,037,955	3
	Exception	290	1	402,397,499	3
	Total	**47,153**	**100**	**13,370,332,165**	**100**

Source: SICOES, data as at 09/23/2009

225. In connection with exception-based procurement, although these purchases do not number many as a share of the entities reporting to the SICOES, there are no arrangements to control their effective reporting; the same is with the strategic national state enterprises, which are required to report their procurement to SICOES.[53]

Box 3.2 Procurement Bidding Procedures

National Support to Production and Employment (*Apoyo Nacional a la Producción y Empleo,* ANPE)

Direct procurement, comprises only procurement for up to Bs5,000 (US$700), which because of its amount does not require a public call[a] and is regulated by each public entity on value for money principles.

Based on proposals from Bs5,001 (US$700) up to Bs20,000 (US$3,000), procurement is conducted based on requests for proposals. No call publication is required and requests are sent to assess a minimum of 3 proposals. In case of failing to obtain 3 proposals, the official responsible for the process needs to request authorization from his/her immediate boss for the award. Although procurement for this amount does not require publication, the entities may proceed to publication in SICOES.

With call for bids, from Bs20,001 (US$3,000) to Bs500,000 (US$70,000), it is made through a public call in SICOES and is open to the participation of bidders. Minimum deadlines are established to submit the proposals in accordance with the amounts. (a) 5 business days for procurement under Bs200,000 (US$30,000); and (b) 10 business days for procurement from Bs200,001 up to Bs500,000 (US$70,000.)

In this modality simplified requirements are established in order to promote the participation of bidders; no bid bond is required, no amendments are allowed (given the short time to submit proposals) or filing of administrative procedures of complaint. It is possible to hold a meeting to clarify information and the opening takes place in public.

Public competitive bidding

Public competitive bidding is carried out through a public call for bids in SICOES and allows for open participation of bidders, with the minimum deadline for bid submittal set at 15 business days in the case of domestic competitive bidding up to Bs40,000,000 (US$5.7 million) and 20 business days for international competitive bidding for procurement in excess of Bs40,000,000.

The opening is carried out in public and it is possible to issue amendments either by request of the bidders or as decided by the entity as a result of the consultations and clarifications made up to the clarification meeting. Bidders are required to submit a bid bond. It is possible to file administrative complaints, backed up by a surety from the complaining bidder.

[53] Article 4 of Supreme Decree No. 29576

Exception-based procurement

Exception-based procurement is only possible based on causes defined in the regulations. Such procurement must be authorized by an express resolution, based on a technical report issued by the chief executive authority together with the administrative authority. Special bond regimes are established when an exception-based procurement involves specialized public entities; the contract bond is substituted with withholdings for the same defined amount (7 percent of the contract amount).[b] These contracts are not awarded through a public call but need to be reported to SICOES after the contract execution.

With respect to exception-based procurement for strategic domestic state-owned enterprises, such enterprises have to be created through a Supreme Decree, where such category is specified.[c] The exception, in this case, is applied to the direct purchase of machinery and equipment, raw materials, and inputs needed for the production to which the enterprise is dedicated. Each state-owned company has to develop its specific procurement regulations, which in practice are harmonized by the lead agency (i.e., MEFP) and approved by the entity.[d]

Emergency Procurement

Emergency procurement is applied only and exclusively to the procurement of goods, works, general services, and consulting, to address a national, departmental, and municipal emergency, formally declared in accordance with Law No. 2140 of October 25, 2000, on Risk Reduction and Disaster Response. The conditions and processes for emergency procurement have to be regulated by the chief executive authority in each entity, in accordance with Law No. 2140. No public call is required.

[a] Article 51, paragraph (a), Supreme Decree No. 29190.
[b] Article 55, Supreme Decree No. 29190.
[c] Examples include LACTEOSBOL, CARTONBOL, and PAPELBOL.
[d] Article 54, Supreme Decree No. 29190.

226. On the other hand, since the implementation of the ANPE modality, there is evidence of an increase in the number of participants in procurement processes above Bs20,000. During FY2008 the number of bidders increased by 226 percent as compared to FY2005 with 90 percent having participated in ANPE.

227. Over 95 percent of the data is recorded online and includes domestic and international bids; contracts awarded; annual procurement program; procurement statistics; procurement in other countries; and current, ongoing, or completed bidding processes. Also an Annual Procurement Program (*Programa Anual de Contrataciones*) is published of all entities that have reported to SICOES. By having information processed in a homogeneous manner, the various entities provide the data required to provide transparency to the processes that are accessible to all and make it possible to generate reliable statistical information. Annex 5 shows a detail of the contracts awarded in 2008 and the first half of 2009, per procurement modality, as well as a detail of the processes initiated and effectively completed in the same periods.

228. In summary, the legal and regulatory framework fosters competition, in particular with the recently approved modality of National Support to Production and Employment.

(ii) Justification for use of less competitive procurement methods

229. Within the use of less competitive methods for procurement, Supreme Decree No. 29190 stipulates three modalities described in the previous section: (a) direct procurement within the ANPE modality, for up to Bs5,000 (US$700); (b) exception-based procurement,[54] which is not

[54] Article 53, Supreme Decree No. 29190

applicable when there may be a lack of foresight of the entity or untimely request for the work, goods, general service, or consulting; and (c) emergency procurement. The latter is applied only and exclusively to the procurement for goods, works, general services and consulting to address a national, departmental and municipal emergency declared as such in accordance with Law No. 2140 of October 25, 2000, on Risk Reduction and Disaster Response. It does not require a public call for bids.

230. Pursuant to the information obtained from SICOES, in FY2008, the procurement processes that were conducted without a public call for bids amounted to 3 percent:

Table 3.13 Procurement With and Without Public Calls for Bids, FY2008

Modality	Number of processes	% of number of processes	Amount	% of amount
With call for bids (competitive bidding, ANPE, and other modalities of financing agencies)	45,559	97	12,250,869,923	92
Without call for bids (exception, emergency, direct)	1,594	3	1,119,462,242	8
TOTAL	47,153	100	13,370,332,165	100

Source: SICOES

231. These procurement modalities do not require a public call for bids; however, it is important to note that this less competitive-bidding procurement can be made by means of a public call for bids should the entity decide it. The percentage of procurement without call for bids is not significant.

232. All less competitive methods are regulated and governed by the NB Assets and Services Administration System Regulations. These procurement modalities, like the others, are subject to internal audits conducted in each institution on an annual basis, as well as ex post oversight by the General State Comptrollership, which is responsible for supervising compliance with the regulatory provisions of Assets And Services Administration System in that regard.

233. Although rules exist in support of these less competitive processes, it is also important to note that they are an ”exception“ within the framework of the general procurement process in the country.

234. Summarizing, the less competitive methods are not generalized. The use of less competitive methods accounts for a reduced share of the total procurement processes and of the amounts involved in government procurement.

(iii) Existence and operation of a procurement complaints mechanism

235. Within the framework of Supreme Decree No. 29190 of July 11, 2007, the procedure for procurement-related complaints in Bolivia differs depending on whether the objections are raised at the pre-contractual or the contractual stage.

236. In the pre-contractual stage, the rules provide for the filing of administrative claims with the purpose of achieving a timely resolution of any complaints connected with the procurement process, with the caveat that such claims are only applicable for procurement in excess of Bs500,001.[55] Procurement processes under the ANPE modality are not subject to such

[55] Articles. 70, 71 and 72 (12), Law 1178, and Articles 27 to 40 of its Regulations.

procedure.[56] Only three kinds of resolutions are subject to complaints: (a) resolutions approving the basic procurement document (*Documento Base de Contratación)*; (b) award resolutions, and (c) resolutions declaring a bid void.[57] The latter may be filed by bidders who believe that their legitimate interests have been affected, damaged, or impaired.[58]

237. The requirements and formalities to file these claims establish that they have to be submitted to the same authority that passed the Resolution [i.e., the Procurement Process Authority (*Responsable del Proceso de Contratación*)].[59] It is mandatory to attach a bid bond or insurance policy for 0.25 percent of the bid value in the case of a complaint against the Resolution approving the basic procurement document, or for 0.50 percent of the bid value in the case of the two other resolutions. The notices with the award resolutions are served at the claimant's domicile, provided such domicile is within 500 meters of the domicile declared by the procuring entity; otherwise the bidder will have to obtain the resolution at the entity.

238. It should be noted that not only does the principle of administrative complaint consider only one objection instance before the same public entity that has called for bids, but furthermore, it is not covered by the Law of Administrative Procedure No. 2341. In addition, the configuration of the complaint motion within the Bolivian administrative procurement regime violates the principle of two instances and of administrative oversight guaranteeing the rights of the parties.

239. In accordance with the statistics on claims for FY2008, 58 claims were filed (52 percent were decided in favor of the claimant and 14 percent were rejected). But with regard to the time to resolve those submitted, 60 percent were resolved within the term and 40 percent beyond it, leaving a significant percentage of late resolutions. The procurement process remains suspended until the claim has been resolved.

240. In addition, the bid bond, which in fact is an insurance policy or bank guarantee, because of the high amounts involved in view of the percentages required, rather than being a simple requirement has a single deterring consequence of denying an elementary principle, which is the right to defense of the parties participating in an administrative procurement process.

241. In that context, it should be emphasized that such procedure is restrictive of the exercise of the right to claim since in the administrative process there is no independent higher external instance to hear appeals in an impartial manner regarding the way in which the claims are resolved.

242. The decision of the entity is the end of the administrative procedure and opens up the administrative litigation alternative, according to the law.[60] In accordance with the civil procedure norms, administrative litigation has a single instance, which is the Supreme Court of Justice. This means that to be able to challenge the resolution to a claim it is necessary to resort to the highest court in the land, which only sits in the city of Sucre. Simply based on distance, this challenge is limited by access to the court in an expeditious manner.

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[56] With the reform of the procurement rules through Supreme Decree No. 0181, the possibility of filing a complaint under the ANPE modality was established as from Bs200,000.
[57] Article 71, Supreme Decree No. 29190
[58] Article 27, Regulations of Supreme Decree No. 29190
[59] Article 27, Regulations of Supreme Decree No. 29190
[60] Article 72 NB, Basic Norms Supreme Decree No. 29190

243. At the contractual stage, the only valid forum accepted by the purchasing entity to hear disputes resulting from the legal relation between the principal and the contractor is the tax enforcement court (*coactivo fiscal)*. Pursuant to the clause relating to dispute resolution of the model contract in the basic procurement document which reads: "...in case of disputes arising between the principal and the contractor that cannot be resolved, the parties are authorized to resort to the courts, under the tax enforcement jurisdiction."

244. It should be noted that by definition this legal alternative can only be used by public entities to collect potential economic damages caused to the state by private persons or public servants. It is the forum established by law to resolve civil liability resulting from Law 1178. Consequently, the tax enforcement jurisdiction is neither legally allowed nor suitable to resolve on controversies arising from administrative legal relations.

245. Since the outcome of this administrative litigation remedies (pre-contractual phase) and tax enforcement remedies (contractual phase) are uncertain, protracted (years), costly, and ineffective at suspending the procurement process, their use is deterred and their application is practically nil, even more so if there is no relation between the rule and the contract.

246. It is surprising to find that no other conflict resolution alternative exists, such as mediation and arbitration. In many Latin American legal systems, mediation and arbitration have led to creation of centers specializing in the resolution of disputes around administrative matters, thus guaranteeing the creation of a neutral instance, specialized and efficient in the resolution of topics that are often unfamiliar to lower court judges.

247. Although there is a system for claims against administrative actions in one phase and for dispute resolution in the other, these are not configured with the basic principles to safeguard the parties that participate in procurement processes as bidders. It is therefore necessary to reconfigure the scheme for claims at the administrative level, fostering the creation of an independent dispute resolution entity. This entity can become a true overseer of the administrative actions and a dispute resolution arrangement that is naturally formulated to that end, with the distinction of neutrality, efficiency, efficacy, and equity.

248. In summary, the mechanisms to file complaints and appeal remedies are very limited, are conditioned in a way that makes them very expensive for those who intend to use them, and are complex and inefficient.

Indicator	Score	Explanation
PI-19 Competition, value for money, and controls in procurement	**B**	**Scoring Method 2**
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	B	Over 90% of the procurement takes place through public calls for bids. Procurement processes starting from Bs20,000 (US$3,000) are made through a public call in SICOES and are open to the participation of bidders. Although the law sets minimum terms of 15 business days for domestic competitive bids and 20 for international competitive bids, these are short for the amounts involved and could limit the competitive quantity and quality.
(ii) Justification for use of less competitive procurement methods	B	The use of less competitive or very restrictive competition methods is not generalized (3% of the total procurement). They are carried out within existing legal framework; however, the entities have authority to make this type of procurement using a public call. Although the process follows procurement regulations, it is possible to introduce improvements in these methods to obtain better outcomes.
(iii) Existence and operation of a procurement complaints mechanism	C	A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for a timely resolution of complaints.

249. ***Reforms***. On July 15, 2009, Supreme Decree No. 0181 was approved, introducing major reforms in procurement regulations, among the most important are the following:

- The filing of administrative complaints is allowed for procurement under the ANPE modality for values as from Bs200,000 (US$30,000).
- The value for the ANPE modality is increased up to Bs1,000,000 (US$140,000).
- It is established that the award resolutions will be published in the SICOES and that the term to file a complaint will be counted from the date of publication of the resolution in the system.
- The sale of the basic procurement documents is expressly prohibited, and the established procedure is for the official documents to be downloaded directly from the SICOES.

PI-20 Effectiveness of internal controls for non-salary expenditure

250. The General Comptrollership of the Republic (currently General State Comptrollership under the new Constitution) regulates the government control system.[61] Within that framework, Supreme Decree No. 23215 determines one of the powers of the General Comptrollership will be developing and issuing the basic regulations for internal government control and external ex post control.[62] Consequently, the General Comptrollership developed and issued the principles, general and basic standards of internal control.[63] In turn, these regulations have been supplemented with secondary rules to implement internal controls, and also a guide has been developed to evaluate the internal control process.

251. The regulations provide that the senior executive authority in each entity is responsible for developing and implementing secondary rules and an adequate establishment and operation of the internal control system. Although the internal control is supported by standards updated in accordance with the international standards, they have not been implemented adequately. For example, the controls applied are not the result of the application of risk assessment techniques as provided in the established internal control standards. Part of the general weakness in the implementation appears in the Reports of the General State Comptrollership, which in recent years reveal significant failures of internal controls and a weak disposition of the entities to implement the recommendations included in audit reports. The implementation and use of SIGMA, however, has contributed in a significant manner to maintaining discipline in recording the budget events combined with the controls implemented by the Treasury regarding actual cash availability.

(i) Effectiveness of expenditure commitment controls

252. Article 9 of the Budget Administration Law (Law No. 2042 of December 1999) explicitly provides that public sector entities will not be allowed to commit or accrue expenditures charged to resources of the National General Treasury, beyond the monthly quota allocated by the Ministry of Finance (currently MEFP), through the Vice Ministry of Treasury and Public Credit, in accordance with the cash flow available at the Treasury.[64]

253. In addition, the systems for administration of goods and services, accounting, and treasury contain specific aspects to control expenditure commitments. Specifically, budget certifications are a prior requirement when initiating any process to procure goods and services. Likewise, the integrated accounting system includes various budget events called preventive, committed, accrued, and paid; and compliance with the same is implemented through SIGMA.

(ii) Comprehensiveness, relevance, and understanding of other internal control rules/ procedures

254. Although the administration systems included under Law No. 1178 are supported by basic standards issued by the MEFP as the regulatory agency, they are too generic and have not been fully implemented. One cause of the poor implementation of the basic standards in force

[61] Article 3 of Law No. 1178 of Government Administration and Control (SAFCO Law).
[62] Regulations for the Exercise of the Powers of the CGR in Bolivia.
[63] Resolution No. CGR-1/070/2000 of September 21, 2000.
[64] The commitment quota for investment expenditure is quarterly.

is that they are not very well understood. Public entities end up developing specific regulations as a function of the basic standard in question and customize for the respective entity. The point is they are not customized rules and do not include adequate procedures or controls for application. And in many cases, the regulatory agency provides these “customized” procedures to others as legitimate standards or models.

255. Implementation guidelines have not been produced by the Office of the Internal Control Deputy Controller of the General State Comptrollership; and although training has been provided for the public sector, the degree of implementation is considered low. No relation was found between the internal control standards being applied and a risk analysis sustaining them. In fact, the risk analysis is a requirement of the standards but the analysis has not taken place

256. The internal control standards have not been applied to the extent expected, and therefore there is no evidence of progress in their implementation (control culture). Components considered in the internal control standard are not clearly defined and formalized, as well as in the good practice relating to the control environment, risk evaluation, control activities (not linked to risks) and monitoring (supervision levels, information quality control and operation of the Internal Audit Units). This circumstance generates uncertainty regarding a possible duplication or absence of controls in areas of high and medium risk.

257. Independent evaluations of internal control are not systemic, and therefore there are no reports available referring to the pertinence and understanding of the internal control standard. Internal controls are basically based on one component of the internal control standard called “control activities.”

(iii) Degree of compliance with rules for processing and recording transactions

258. The degree of compliance with internal controls is directly related to the degree of implementation of the standards, as referred under dimension (ii). The reports of the Internal Control Deputy Controller show lack of compliance with the only control component that has been somewhat implemented, (i.e. the “control activities”). In that sense, the Internal Audit Units also provide reports on lack of compliance, which reveal a high exposure to risks of information reliability and protection of assets and other interests related to public resources.

259. It should be taken into account that SIGMA operates as a financial information quality filter, at least with regard to compliance or adherence to the approved budget (recorded in SIGMA) and to the commitment quotas set by the Treasury. In that sense, the errors or inconsistencies that are detected by SIGMA are corrected in real time to be able to move forward in the execution process, but no statistical record of these inconsistencies is maintained. Another issue is connected with the types of transactional mistakes being reported both by the Internal Audit Units and the General State Comptrollership as part of their special audits. Such errors are detected after processing the transactions in SIGMA and are of a varied nature, from corrections in the financial audit work (reliability audit) that Internal Audit Units make of the financial statements, up to lack of compliance with the specific internal control rules. At present neither the Internal Audit Units nor the Comptrollership have developed a study to relate the lack of compliance risks that may exist in the SIGMA process to the findings listed in their reports.

Indicator	*Score*	*Explanation*
PI-20 Effectiveness of internal controls for non-salary expenditure	**D+(*)**	**Scoring Method 1**
(i) Effectiveness of expenditure commitment controls	A	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations. These controls are included in SIGMA and prevent or highlight in real time the inexistence or mistaken allocation of a process request in budget execution.
(ii) Comprehensiveness, relevance, and understanding of other internal control rules and procedures.	D	The internal control rules of the entities are not clear or comprehensive since they are not based on risk evaluations but rather are limited to transactional control activities.
(iii) Degree of compliance with rules for processing and recording transactions.	C	The Comptroller's Report for 2006,[a] 2007,[b] and 2008 reveal notable lack of compliance with the internal control standard for entities where their interventions were practiced. Likewise, the Internal Audit Unit Reports of the General State Comptrollership reveal a partial lack of compliance with the controls.
[a] The FY2006 Report indicates the follow-up of 1,132 recommendations, of which barely 22.61 percent were implemented, 33.12 percent partially implemented, and 44.87 percent failed to be implemented. [b] The FY2007 Report indicates the follow-up of 1,073 recommendations, of which barely 20.23 percent were implemented, 39.23 percent were partially implemented and 40.54 percent failed to be implemented.		

(*) In spite of the good performance of the controls over expenditure commitments, the overall scoring of this indicator is affected by the second dimension since the internal control rules of the entities are neither clear nor comprehensive, and because they do not respond precisely to risk assessments, they cannot be considered efficient as would be required for a higher score.

PI-21 - Effectiveness of internal audit

260. The work of the Internal Audit Units is directed at developing the activities contemplated in Article 15 of Law No. 1178 on Government Administration and Control. According to this Law, the Internal Audit Units report to the chief executive authority of each entity, are freely appointed, and are independent from the activities that they audit. The chief executive authority is responsible for respecting their independence. In accordance with the rules in force, the internal audit is defined as:

> ...an ex post control function of the organization, which is carried out through a specialized unit, the members of which do not participate in the operations and administrative activities. Their purpose is to contribute to the fulfillment of the entity's objectives by means of a periodic evaluation of the internal control.

261. This implies that during the year the Internal Audit Units should conduct work that allows them to draw conclusions on the reliability of the data on the effectiveness of the operations and the compliance with the laws and regulations. However, that is not the case. In practice, it has been understood that the Internal Audit Units should focus on the execution of financial audits (which they call "reliability audits") and produce annual reports with

professional opinions on the reliability of the financial statements. In addition, the Internal Audit Units review the internal control, as part of the reliability audits or under separate work called “audits of the administration and control systems” (*sistemas de administración y control,* SAYCO), by selecting transactions carried out within a period, but issue no opinion on the internal control system as such, but on each transaction. The Internal Audit Units also frequently include among their activities the so-called “special audits” that consist of investigation of alleged frauds.

262. The General State Comptrollership should carry out audits of financial statement; but as an internal service for the chief executive authority, the Internal Audit Units may perform these audits. In that sense, due to lack of independence of the Internal Audit Units, the outcomes of these audits cannot be considered on the same level as if they were conducted by the General State Comptrollership, especially for purposes of public certification or for the assurance of citizens or other stakeholders. Notwithstanding these limitations, in terms of budget execution, reliability audits verify compliance with the budget law, and the Internal Audit Units include that scope in their reports.

263. The quality of the Internal Audit Units is selectively subject to reviews by the General State Comptrollership. During years 2006, 2007, and 2008 the State Comptrollership reviewed the quality of an average of 70 Internal Audit Units (out of approximately 252). Its conclusions reveal major weaknesses in the structure and operation of their practice. The General State Comptrollership returned approximately 13 percent of the reviewed reports issued by the Internal Audit Units.[65] Annex 2 shows the main observations of the Internal Control Deputy Comptroller stemming from the quality evaluations for those years.

(i) Coverage and quality of the internal audit function

264. There are approximately 450 Internal Audit Units for the entire public sector in Bolivia, according to the General State Comptrollership’s 2008 report. Of this total, 252 are within the central administration and have a staff of 743. According to current rules, the Internal Audit Units are required to prepare and present their annual operating plan to the General Comptrollership of the Republic, duly endorsed/supported by the entity’s chief executive authority, detailing the types of audits and reviews that they expect to conduct.

265. At a regulatory level of the Internal Audit Units, the internal audit function is adequately structured and backed up by audit standards and manuals. Their independence, supported by the chief executive authority and the General State Comptrollership, has been formalized in an annually issued document called “Declaration of Purpose, Authority and Responsibility”. That document formalizes the Units’ authority, unrestricted access to information, and ability to present reports, which should be delivered both to the chief executive authority and the General State Comptrollership. Still pending is institutional capacity building through the recruitment or development of specialized staff in the sectoral areas such as health, education, and infrastructure, as well as implementing technical and technological tools to plan and evaluate outcomes in accordance with risk-based analysis methods.

266. The Internal Audit Units partially comply with the Governmental Auditing Standards included in the Manual issued by the General State Comptrollership. These standards are consistent with the International Standards for the Professional Practice in Internal Audit,

[65] Report of the General Comptroller of the Republic for Fiscal Year 2008.

issued by the Institute of Internal Auditors. Some reasons follow for the Internal Audit Units meeting only partial compliance to standards: (a) too much focus on practicing financial audits (which are the responsibility of the General State Comptrollership) and special audits (investigations) rather than the evaluation of internal control (main responsibilities); (b) partial availability of competent professional resources for the different specialty requirements of the agencies and entities; (c) lack systems to control the quality of their work and outcomes; (d) lack technological resources and do not practice audits utilizing computerized systems; and (e) fail to conduct value for money audits (performance or management audits).

(ii) Frequency and distribution of reports

267. As required by Article 15 of Law No. 1178, the Internal Audit Unit sends its reports immediately after they are completed to the chief executive authority of the audited entity, the General State Comptrollership, and the chief executive authority of the lead agency. This is also a requirement of the Professional Audit Standards.

(iii) Extent of management response to internal audit findings

268. Internal Audit Units lack management control systems to measure the level of effectiveness of their function. As indicated in the conclusions on internal control for Indicator PI-20, the chief executive authority and officials in senior positions have partially implemented internal control standards and have failed to develop tools to enable them to measure the cost/benefit of the internal audit function. This generates uncertainty regarding the quality and priority of the internal audit outputs. The internal auditors interviewed as part of this review indicate that their recommendations are taken into account although not with the required timeliness. The reports of the Internal Control Deputy Comptrollership indicate that in the annual periods comprised between 2006 and 2008, the Internal Audit Units' recommendations were only implemented by approximately 44 percent, reflecting up the little credibility in good practice of the Internal Audit Units as advisory units in management and control.

Indicator	Score	Explanation
PI-21 Effectiveness of internal audit	**C** (*)	**Scoring Method 1**
(i) Coverage and quality of the internal audit function	C	Most of the entities representing the central government have an internal audit function, although the scope of their work is eminently transactional. These Internal Audit Units partially comply with the accepted international standards for professional audit practice.
(ii) Frequency and distribution of reports	C	In most central government entities, reports are periodically issued and sent to the head of the audited unit, the entity's chief executive authority and the General State Comptrollership. The MEFP does not get a copy of these reports.
(iii) Extent of management response to internal audit findings	C	Although the internal auditors have no statistics available on the degree of adoption of the findings reported in the Internal Audit Unit reports, Internal Control Deputy Comptrollership data show that in the annual periods 2006 to 2008, approximately 44% of the Internal Audit Unit recommendations were implemented.

(*) The overall score for this indicator is fundamentally affected by the following aspects: (a) the internal audit function is not fully compliant with the international standards on auditing, and it does not focus on systemic issues (as a better score would require); (b) although the reports are distributed in a timely manner, they are not sent to the MEFP, which is a requirement for an A or B score; and (c) the reaction of the entity's management to the internal audit findings is not always fast or comprehensive.

3.5 Accounting, Recording, and Reporting

269. The following four indicators are designed to evaluate the extent to which adequate records and information are developed, maintained, and disclosed to pursue the objectives of control, management, and decision-making.

PI-22 Timeliness and regularity of accounts reconciliation

270. Law No. 2042 of Budget Administration and the Basic Integrated Government Accounting and Treasury Standards required the reconciliation of all bank accounts and, as a minimum, a monthly reconciliation of all the accounts. Bolivia's integrated financial system (SIGMA) has automated the daily accounting transactions required to record its operations and automatically produce full accounting records in real time. SIGMA is fed with information on the budget approved by law each year, as well as all rules and restrictions governing the execution of the budget and the use of the resources, thus becoming the tool that the ministries, departments, and organizations use to perform and, at the same time, extract and display information in various forms allowing for production of reports for the central administration in a fast and efficient manner.

271. On its side, the General Directorate of Treasury Operations and Programming authorizes in the system the requests for monthly commitment quotas sent by each entity directly through SIGMA. This authorization through the system becomes a control of the monthly cash ceiling that limits the transactions that may be paid by the system. As the records are created, they can

be simultaneously checked automatically against the authorized ceiling. The information on daily expenditure can be easily reconciled with the bank account balances, an essential task in the type of Single Treasury Account (book management) practiced by the treasurer.

272. The Treasury proceedings require the nightly transfer of the fiscal bank account balances to the Central Bank; and since the Treasury compares these records on a weekly basis, there is another automatic reconciliation.

273. Since SIGMA is based on automatic accounting, each transaction is recorded as it takes place in the system, which includes a series of validation requirements before enabling the recording. It also automatically records the data in the Treasury's General Ledger making it immediately available for accounting purposes. On a monthly basis, the General Directorate of Fiscal Accounting of the MEFP issues an end-of-month report, which is subject to an additional validation test by said Directorate.

(i) Regularity of bank reconciliations

274. The Treasury and Central Bank of Bolivia carry out reconciliation of bank accounts; and it is reviewed weekly. It is recorded in SIGMA and automatically reported as part of the accounting reports issued by the General Directorate of Fiscal Accounting. It becomes part of the reports that are validated on a monthly basis.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

275. This indicator requires considering those items that imply payments made in cash, for which no expenditure has been recorded. Pursuant to this criterion, in accordance with the Basic Standards for the Government Accounting System, imprest funds and advances have been considered.

276. In accordance with the Basic Standards, the advance funds constitute deliveries of funds to authorized public servants that have to account for them, received in furtherance of specific purposes and under the responsibility of the senior executive authority in each entity. In the case of funds advanced for travel commissions, for example, the respective rule requires that they be accounted for within a maximum of five days. The monitoring, control, and follow-up of these items falls fully on each entity, which has to ensure compliance with the requirements of the respective rules, including the application of sanctions, as may be the case. In addition, the entities operating with SIGMA can use and request the opening of imprest funds—normally used to meet operating expenses—which at the time of their disbursement do affect the respective expenditure items, which may be adjusted once the imprest fund is accounted for.

277. The clearance and closing of these items are explicitly regulated by the MEFP-issued instruction for budget, accounting and treasury closing, according to which these items need to be adequately reconciled, reported, and closed for each fiscal year. In the case of the imprest funds, they can be efficiently monitored through SIGMA, both by the entity and by the General Directorate of Fiscal Information Management Systems. In the case of advances, however, each entity is responsible for them. Thus, at the closing of FY2008, the financial statements of the central administration report an amount of Bs7.45 million in advances that were not accounted for at year-end. According to the break-down per entity presented in the notes to the 2008 financial statements, many of those balances appeared as pending balances after the close

of the previous year 2007 (approximately 20 percent).[66] Evidence suggests that the process of reconciliation and clearing of these items presents certain weaknesses, with the balances being carried over from one year to the next, in spite of the rules established for the closing.

278. The General Directorate of Fiscal Accounting gathers this information to prepare the financial statements of the central administration. On that basis, it carries out follow-up activities, such as circulars to the public sector on advances or accounts receivable not discharged with the aim of ensuring that such balances are closed. Such follow-up includes meetings with Internal Audit Units and the Comptrollership itself for the necessary audits to be conducted in order to determine the respective responsibilities.

Indicator	*Score*	*Explanation*
PI-22 Timeliness and regularity of accounts reconciliation	**B (*)**	**Scoring Method 2**
(i) Regularity of bank reconciliations	**A**	The reconciliation of the central government bank accounts is done on a daily basis.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	**C**	The reconciliation and clearance of these items is the responsibility of each entity, and although they can do it periodically and it is carried out at least on an annual basis, the non-cleared balances in a considerable quantity of accounts are carried over**.**

(*) In spite of the good performance in the regularity of bank reconciliations, the average score for this indicator was affected by the second dimension due to the reconciliation and clearance of suspense accounts and advances which, although done annually (and not on a quarterly basis as a higher score would require), shows that the number of accounts that are not cleared is significant.

PI-23 Availability of information on resources received by service delivery units

279. The objective of reporting this indicator is verifying the existence of available and consolidated information on resources received by the basic service delivery units, either in money or in kind, specifically education units and primary health care centers,[67] regardless of their source of funding. It also seeks to determine to what extent the various public financial management systems support directly the monitoring of these basic service delivery units.

280. In Bolivia, financial resources for the health and education sectors are allocated by the three levels of government; central, departmental (prefectures), and municipal. Although the central level mostly has a regulatory and policy-making role, it is also in charge of executing programs with a national scope allocating resources as a function of the needs. The departmental level is responsible for the management of the payroll; although in the education sector this function is merely nominal because despite being regulated the payroll development still rests with the central level. The municipal level is responsible for providing, maintaining, and controlling infrastructure and equipment (including improvements and maintenance) along with allocating resources to cover recurring operating costs. These recurring operating costs guarantee the normal operation of the education units and health centers, including general

[66] Of the cumulative balance (as of December 31, 2008) of Bs7.45 million, Bs1.5 million is pending since the close of FY2007.

[67] According to the classification of health facilities used in Bolivia, primary health care includes 1,360 health stations and 1,140 health centers.

inputs for daily activities and basic services. The resources required by each government level to discharge their assigned duties are incorporated in their respective budgets[68] following the classifications in accordance with the Budget Directives that are approved for each fiscal year, basically item per expenditure object. However, there is no requirement for another disaggregation level, such as at the level of education unit or primary health care center.

281. For the health sector, local-level management operates from municipal governments and local health boards (*Directorios Locales de Salud*), which are responsible for managing the physical, financial, and human resources of the health service networks. At the municipal level, this network consists of one or several primary-level centers and a higher complexity institution. Generating their own resources based on the services they offer, These centers, which are managed at municipal level except for personnel management, execute programs such as the Mother and Child Universal Insurance (*Seguro Universal Materno Infantil*) and the Insurance for the Elderly *(Seguro Para el Adulto Mayor*). Each health center prepares an Annual Operating Program determining the resources required for each fiscal year. The Program is updated on a quarterly basis and against which the municipality makes reimbursements. Under this scheme, the municipal governments may maintain auxiliary records of resources assigned at each level of the network; in turn each of the networks that are set up in health care gathers the records of the resources received by the health centers and the expenditure incurred. There is no consolidated or historical information of this execution of financial resources or of the in-kind resources provided.

282. In the education sector, the education units are similarly grouped in education hubs in rural areas and education networks in the urban areas. These groupings optimize the use of human, material, and financial resources, as well as centralizing the demand input of the dispersed units. However, in the case of the education sector, there is no direct allocation of financial resources to the education unit, but there are records of what is provided by the municipal level in terms of operating, maintenance, and equipment expenditure. However, the record of expenditure at the municipal level is recorded at the level of items per expenditure object with no other form of breakdown (education unit) available, and is it not possible to make a historical follow-up since the information is not consolidated and, furthermore, may be disorganized.

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by most front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the pertinent sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

283. Front-line service delivery units (education units and health centers) do not constitute, by themselves, public budget execution units. In the case of health, however, the health centers do execute a budget allocated based on an annual operating plan. Consequently, the health centers do prepare monthly reports on the execution of resources allocated by type of insurance they serve and follow established reporting formats. These reports are distributed to the respective network management and later to the municipal government. Although the municipalities could maintain consolidated and systematized information for all the centers, many factors

[68] As described in the analysis of PI-7, the budgets of the line ministries and the prefectures are included in the General National Budget. While in the case of the municipalities, it is only included at the transfer level.

exist, mainly in the case of rural municipalities that prevent this from being completed. In the education sector the data are more scattered, although the municipalities do maintain some records. Also, it should be taken into account that the availability of information from the municipal governments significantly depends on capacity and technical and administrative resources each may have to exercise control and monitoring effectively at more disaggregated levels.

284. Up to where this review was able to verify it, there also lacks an entity in charge of collecting and consolidating the information that could be available at various administration levels and that could be used for monitoring and control of resources allocated to these basic service units.

Indicator	*Score*	*Explanation*
PI-23 Availability of information on resources received by service delivery units	**D**	**Scoring Method 1**
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D	Although some level of information might exist—for example at the municipal level—in the last three years there has been no comprehensive data gathering on the resources allocated to the service delivery units with reference to any of the major sectors.

PI-24 Quality and timeliness of in-year budget reports

285. This indicator focuses on the extent in which the MEFP (and the Cabinet) have regular and timely information available on budget outcomes for monitoring purposes. In that sense, the indicator evaluates the possibility of presenting complete reports based on the accounting system regarding all aspects of the budget, including information on expenditure at the commitment and paid stages and information on expenditure covered with the resources transferred by the central government to subnational governments.

(i) Scope of reports in terms of coverage and consistency with budget estimates

286. Although SIGMA presents real-time reports on detailed budget execution (at a preventive level,[69] commitment, accrued, and paid), it is only available to those entities that use the central SIGMA; thus, for example, it would only be possible to follow the execution of the transfers made to decentralized entities or other government levels, but not the effective execution of such transfers. Consequently, the real time information made available by SIGMA is not complete for the purposes of this dimension.

287. As from FY2008, however, the General Directorate of Fiscal Accounting has undertaken the task of developing monthly Public Sector Budget Execution Reports, which are made

[69] According to the regulations in effect for budget execution, the entities are required to make a budget reserve (preventive) before initiating any selection or procurement process.

available to the Minister of Economy and Public Finance before the end of the month following the month being reported.

288. These reports include aggregate information of the public sector, developed on the basis of the data available in SIGMA and the information reported on a monthly basis by the rest of the public sector entities in compliance with the requirement for providing monthly budget execution information within 20 days of the close of each month. This information is prepared for internal use and covers the central government entities, the non-financial public enterprises, the territorial administration (prefectures and municipal governments), the financial public sector, social security, and other entities included in the National General Budget. The level of the report's coverage will depend on the extent to which, for example, the subnational governments and the autonomous agencies meet their obligation of sending their monthly reports to the General Directorate of Fiscal Accounting. Although some entities might not be included (possibly some very small municipalities), the impact would not be consequential since a significant share of the public sector is either using the central SIGMA or another version of the same system, something that facilitates the timely submission of information.

289. The information reported follows the administrative classification (institutional) and the economic classification (at the level of expenditure group) used in the budget, both for current expenditure and investment expenditure. It only includes information at the level of the effective budget (modified), and executed, and not at the commitment stage as required by the methodology.

(ii) Timeliness of the issue of reports

290. The public sector budget execution reports prepared on a monthly basis with the characteristics described under the dimension (i) are available before the close of the month following the month being reported (between the 22nd and the 24th of the following month) for MEFP internal use.

(iii) Quality of information

291. The automatic SIGMA accounting produces routine monthly reports that form the basis for preparation of the budget reports that this indicator deals with. For those other entities that use the simplified (local) SIGMA, the information reported is also captured by SIGMA on a monthly basis. Still, there remain other entities that use no version of SIGMA but rather in the case of small municipalities other systems such as the Integrated Municipal Accounting System (*Sistema Integrado de Contabilidad Municipal*, SINCOM) and that are subject therefore to less automatic editing and controls. The aggregation work that is done by the General Directorate of Fiscal Accounting to prepare the monthly budget reports described does not include any data quality assurance or verification. Although the use of SIGMA (in any of its versions) allows a certain level of reliability with respect to the transactional recording of the operations, neither SIGMA nor the financial statements prepared by the General Directorate of Fiscal Accounting are subject to an independent audit review, something that would significantly contribute to straighten the reliability of information reported.

Indicator	*Score*	*Explanation*
PI-24 Quality and timeliness of in-year budget reports	**C+(*)**	**Scoring Method 1**
(i) Scope of reports in terms of coverage and consistency with budget estimates	C	Although data classification makes it possible to compare with the effective budget, expenditure is only captured at the executed stage and not at the commitment stage.
(ii) Timeliness of the issue of reports	A	Reports are prepared on a monthly basis and submitted to the MEFP Minister within four weeks after the close of the period.
(iii) Quality of information	B	There is some concern regarding the accuracy of the data; however the General Directorate of Fiscal Accounting maintains the registration and control of the entities that have failed to submit their information on a timely basis and which therefore is not included in the budget reports; this allows them to conclude that such omissions do not fundamentally undermine the basic usefulness of the reports since the information that may not be reported is not material.

(*) According to the requirements of scoring method 1, in spite of the positive result in terms of the timeliness of submittal of the budget reports, the global score is affected by the dimension (i) since these reports only include information on the executed amount and not the committed amount (as required for A and B scores).

PI-25 Quality and timeliness of annual financial statements

292. In accordance with the provisions of the Political Constitution (article 151),[70] Law No. 1178 of Government Administration and Control (article 27),[71] Law 2042 of Budget Administration and Law No. 2137 of October 23, 2000, the General Directorate of Fiscal Accounting of the Vice Ministry of Budget and Fiscal Accounting prepares and submits to the President of the Republic the financial statements of the central administration within 180 days of the fiscal year-end, for their consideration and submittal to the National Congress.

293. According to the Basic Standards of the Integrated Government Accounting System,[72] the central administration comprises the state ministries, administrative units of the Legislative and Judiciary Branches, and the National General Treasury. According to said standards, the whole of these central administration agencies is considered to constitute a single accounting entity.

[70] Article 151. The general account of the revenues and expenditure of each financial year will be presented by the Minister of Finance to Congress at the first regular meeting.
[71] Article 27 (e): Within three months of the end of the fiscal year, each entity with its own equity and financial autonomy will be required to submit to the entity to which it reports, to the State General Comptrollership, and will make available to the General Comptrollership of the Republic the financial statements for the previous year, together with any notes and the internal auditor's report.
[72] Article 3. Public sector structure and means of financing.

(i) Completeness of the financial statements

294. The financial statements of the central administration are processed based on the information recorded on line in SIGMA.[73] The projects run by central administration agencies that are not connected to SIGMA are recorded using the budget execution vouchers of resources and regularization expenditure that support their financial flows as submitted to the General Directorate of Fiscal Accounting. The financial statements cover the whole of the central administration budget execution, which complies with the budget terms and provides reasonable assurance on the information on income, expenditure, and financial assets and liabilities. As for transactions to be recorded in SIGMA for budget execution by the central government, no material distortions are known in connection with the budget execution concepts mentioned. However, some exceptions have been identified, such as (a) in-kind donations, due to difficulties in their monetization, are not valuated or included in the accounts; (b) the notes to the financial statements do not include a specific disclosure of the standards used in the accounting and consolidation of the financial statements; and (c) the financial statements aggregate the figures of the decentralized entities and state-owned enterprises as a net cumulative value in the equity accounts without a detailed reflection in the asset and liability accounts, as may be the case. This information on net equity is obtained from the financial statements of the public entities, which are submitted to the General Directorate of Fiscal Accounting[74] and which are expected to be supported by the internal and/or external audit reliability reports for those entities that are required to do so.

(ii) Timeliness of submission of the financial statements

295. Law No. 1178 of July 20, 1990, in article 27, paragraph e) provides:

> Within three months of the end of the fiscal year, each entity which has its own equity and financial autonomy will be required to submit to the entity to which it reports, to the General Directorate of Fiscal Accounting—previously the General Directorate of Accounting—and to the State General Comptrollership, the financial statements of the previous year, together with any required notes and the internal auditor's report.

On that same basis, Law 2137 of 2000 provides that the central administration’s financial statements are to be submitted to the President of the Republic within 180 days following the fiscal year-end for their consideration and remittance to the Honorable National Congress. In order to meet the established deadline, the financial statements of the central administration are prepared on the basis of the information received until April 30 of the following year from the respective agencies. The financial statements have to be prepared on the basis of the Basic Standards of the Integrated Accounting System, approved by Supreme Resolution No. 222957 of March 4, 2005, and modified by Supreme Resolution No. 227121 of January 31, 2007.

296. Consequently, these financial statements prepared by the General Directorate of Fiscal Accounting are submitted to the President, to be then remitted to the Honorable National Congress (at its first meeting August 6) in accordance with the effective norms, Law No. 1178, Law No. 2042, and Law No. 2137. The Legislature has the power to approve and/or reject said

[73] With central administration are 23 ministries with approximately 200 administrative directorates and 400 operating and executing units.

[74] According to the central administration financial statements, for FY2008, the net equity of 117 decentralized entities and state-owned enterprises is included (with the exception of municipalities and municipal enterprises), of which 6 failed to submit their financial information, although these only represent 5 percent of the item.

statements; also, the law does not require that the General Directorate of Fiscal Accounting to submit the financial statements of the central administration or the consolidated budget execution report to an external audit. Notwithstanding the above, in the last years, the General State Comptrollership, the supreme external audit authority in Bolivia, has not examined said financial statements and consequently an independent opinion on their reliability is not available.

(iii) Accounting standards used

297. The contents of the financial statements in general include information on income, expenditure, financial assets, and liabilities, in accordance with the local accounting standards, consistent in their application since 1990. The General Directorate of Fiscal Accounting confirms that in general there is consistency between these standards and the International Public Sector Accounting Standards (IPSAS). However, there is no formal approval in that regard.

298. The notes to the financial statements contain no specific disclosure of the accounting standards used and aggregate data of entities not included in SIGMA as net values in the equity, without reflecting the detailed effect in the counterpart accounts of the financial statements.

Indicator	*Score*	*Explanation*
PI – 25 Quality and timeliness of annual financial statements	**D+(*)**	**Scoring Method 1**
(i) Completeness of the financial statements.	B	Consolidated central administration's financial statements are prepared annually and include information on revenue, expenditure, and financial assets and liabilities. However, the consolidation does not respond to a technical method but rather merely constitutes an aggregation. For purposes of the central government, this does not imply a significant effect.
(ii) Timeliness of submission of the financial statements.	D	The financial statements, including the budget execution statement, are submitted in a timely manner according to the legal requirements and no material lack of compliance was identified. Said financial statements however are not independently audited on an annual basis.
(iii) Accounting standards used	C	The corresponding annual standards are applied. Although an updated study demonstrating their consistency with the IPSAS is not available, the fact of not having a consolidation but merely an aggregation is a lack of compliance with the accepted standards.

(*) Based on the scoring method 1 applicable to this indicator, the overall score is practically determined by dimension (ii) that earned the score of D because the financial statements are not subject to an audit review, which is what this dimension evaluates. (The score for this dimension is a marginal score.)

3.6 External Scrutiny and Audit

299. This group of indicators focuses on reviewing the extent to which scrutiny arrangements are applied to public finances and the extent to which the executive follows-up on audit findings and recommendations. To that end, the scope, nature, and follow-up of the external audit are verified, as well as the legislative scrutiny of the annual budget law and the external auditor reports.

PI-26 Scope, nature, and follow-up of external audit

300. The best practice in external oversight requires that the public accounting by the Executive and other executors of the public budget be subject to independent audits not only regarding the reliability of the information reported but also in terms of efficiency, efficacy, and economy in management of public resources. According to the PEFA framework definition, a high-quality external audit is essential for transparency in the use of public funds, with the quality issue being focused on three basic aspects: scope/coverage, compliance with the pertinent standards (including independence), and targeting on significant and systemic issues of public finance management.

301. The external audit mandate has been conferred by the Constitution to the General State Comptrollership (previously General Comptrollership of the Republic). Consequently, the General State Comptrollership is responsible for the external oversight of public management and the external audit of the financial statements and budget execution fall under its jurisdiction. In general, Bolivia has a General State Comptrollership with a relative degree of professional maturity, which in order to fulfill its role has designed and implemented a broad range of adequate standards, techniques, and procedures. These practices are set out in the Governmental Auditing Standards, which contain most of the quality parameters required for external oversight. However, these are only applied partially due to the limited scope of the work of the General Comptrollership of the Republic in the last years.

302. As detailed in Table 3.14, the General State Comptrollership has focused its efforts in follow-up audits of reports with findings and special audits.[75] The publication of financial audit reports has practically dropped to zero during the last two fiscal years.[76] The General State Comptrollership has in a way delegated to the Internal Audit Units some functions expected from a Supreme Audit Institution. For example, the General State Comptrollership has not moved forward in practicing audits of financial statements and budget execution, or in operational or performance audits. For this reason, at present there is no independent professional opinion on the central administration's budget execution or on the financial statements of individual decentralized entities or state-owned enterprises for any of the years under review.

[75] The purpose of the special audit is expressing an independent opinion on the compliance with the administrative legal rules and other legally applicable regulations, and contractual obligations and, as may be the case, establish indications of responsibility of public officials (administrative, civil, criminal, and executive).

[76] According to the General Comptrollership of the Republic, the purpose of financial audits is to issue an independent opinion on whether the financial statements of the audited entity present reasonably, in all significant aspects, and in accordance with the Basic Standards of the Integrated Accounting System, the equity and financial position, the outcome of its operations, the cash flow, the changes in net equity, the budgetary execution of resources, the budgetary execution of expenditure, and the changes in the savings-investment-financing account.

Table 3.14 Detail of the Reports Issued by General State Comptrollership in 2006-2008

Types of audits	***Fiscal year (# of audits)***		
	2008	***2007***	***2006***
Special audits	26	60	52
Operational audits	2	1	14
Financial audit opinions	-	-	4
Reports with findings arising from financial audits	-	-	4
SAYCO evaluation	1	-	2
Information surveys	3	-	1
Review of working papers	3	-	1
Reports with findings arising from special audits		17	31
Follow up on reports with findings[a]	45	37	43
TOTAL	**80**	**115**	**152**

[a] The General State Comptrollership monitors the implementation of all the recommendations issued, regardless of the type of audit.
Source: Comptroller's Reports for 2006 to 2008.

303. ***Reforms.*** The Political Constitution approved in January 2009 introduced some changes that help define the scope of the General State Comptrollership's responsibility in terms of ex post supervision and external control of public entities and of those in which the state has an economic interest or share, as well as reporting the results of its work directly to the Legislative branch. Such changes however will be applicable as of December 2009. Below Table 3.15 compares the main aspects of the State Comptrollership's mandate and operation within the two legal frameworks.

Table 3.15 Comparison of Major Aspects of General State Comptrollership's Mandate and Operation

Relevant aspects	***Previous Constitution, years under review***	***Constitution in force as of March 2009***
Constitutional mandate	**Article 154.** A fiscal accounting and oversight office will be set up, called General Comptrollership of the Republic. The law will determine the powers and responsibilities of the Comptroller General and of the staff in his office.	**Article 214.** The General State Comptrollership is the technical institution that performs the technical function of controlling the administration of public entities and of those in which the state holds an economic interest or share. The Comptrollership is empowered to determine indications of administrative, executive, civil, and criminal responsibility; it has financial, functional, administrative, and organizational autonomy. The law will determine its organization, operation and powers, which are to be rooted in the principles of legality, transparency, efficacy, efficiency, economy, equity, timeliness, and objectivity.
Scope	**Article 155.** The General Comptrollership of the Republic will exert fiscal control over the operations of the autonomous, self-managing entities and mixed economy corporations. The annual management will be subject to specialized audit reviews. Reports and statements that present its financial situation will be published annually and it will be accountable as determined by the law. The Legislature through its Committees will have broad oversight powers over said entities.	**Article 218.** The General State Comptrollership will be responsible for the ex post supervision and external control of public entities and of those in which the state holds an economic interest or share. Supervision and oversight will likewise be exercised on the procurement, management, and disposal of goods and services that are strategic for the collective interest. The General State Comptrollership will submit an annual report on its work regarding the oversight of the public sector to the Multinational Legislative Assembly.
Appointment of the CEO	**Article 154.** The General Comptroller will report directly to the President of the Republic, will be appointed by the same from a slate of three candidates proposed by the Senate, and will have the same immobility and term (10 years) as the Justices of the Supreme Court.	**Article 214.** The State Comptroller will be appointed with two-thirds of the votes of the participants present at the Plurinational Legislative Assembly. The election will require a prior public call and qualification of professional capacity and merits through a public competition. **Article 215.** To be appointed to the office of State Comptroller General requires meeting the general conditions for access to the public service; being at least 30 years of age at the time of appointment; having obtained a professional degree in a field related to the position, having a minimum of 8 years of professional practice; and having proven personal and ethical integrity, determined through public observation. **Article 216.** The State Comptroller General will be appointed for a period of 6 years, without the possibility of re-appointment.

Source: PEFA review team.

(i) Scope/nature of audit performed (including adherence to auditing standards).

304. The General State Comptrollership does not audit the financial statements of the central administration, or the consolidated budget execution, neither at the general level of the financial statement reported by the President nor at the level of individual entities. Transactional audits of the budget execution are carried out, as well as of the internal control and legal compliance of selected central government entities and agencies.[77] Most of the available time is focused on the so-called "special audits" and monitoring that are basically

[77] Transactional audit is that which focuses on individual transactions; hence it is not reasonable to issue opinions or conclusions on the systemic conduct of the budget execution, the financial statements or the internal control.

designed to investigate alleged irregularities, part of which originate in complaints and reports submitted to the General Comptrollership of the Republic. Although some entities—mainly decentralized and autonomous ones, including state-owned enterprises—are subject to external audits, the number is limited with only 4 out of 117 for FY2008.[78] The annual report of the General Comptrollership of the Republic discloses however no data on coverage in terms of entities or budget execution that might be covered by audits contracted with private firms.

305. As shown in Annex 2, adding up all types of General State Comptrollership interventions at a general level in 2008 (independently from the type of audit) and taking the budgets that the audited entities executed, they amount to only 17 percent of the national general budget.

306. As for execution of the work, the study, and evaluation of internal controls, reports released by the General State Comptrollership issue no opinion on all the components of internal control prescribed in the internal control standard, such as risk evaluation.

(ii) Timeliness of submission of audit reports to the Legislature

307. Article 34 of the Regulations on exercise of the powers of the General Comptrollership of the Republic, approved by Supreme Decree No. 23215, provides that:

> …once it is issued, the respective report will be sent by the Comptroller General to the chief executive and the collegiate direction of the entity audited, as well as to the senior authority of the entity to which it reports and within 20 days to the pertinent Committees of the H. National Congress, the H. Municipal Council or the H. University Council.

308. In compliance with this article, all the reports issued by the General State Comptrollership are presented within the four-month deadline after having completed the work to which it refers. However, as mentioned under dimension i), the General State Comptrollership focuses its work on special audits that are not directly related to budget execution in an accountability context, but rather designed to investigate alleged breaches of compliance. Nevertheless, all its reports are submitted to the Legislature within four months of having completed the work to which they refer.

(iii) Evidence of follow up on audit recommendations.

309. Pursuant to the provisions of article 16 of Law No. 1178, compliance with the recommendations discussed with and accepted by the audited entity is mandatory. Likewise, articles 36 and 37 of the Regulations on the exercise of powers of the General Comptrollership of the Republic establishes that within 10 days of receiving the audit report, the audited entity must communicate in writing its acceptance of each recommendation; and for those that are accepted, include a time-bound implementation schedule, including responsible parties and activities for their implementation. The General State Comptrollership conducts a follow-up of these documents, and the indicators show poor levels of compliance. The General State Comptrollership plans the follow-up as a function of the implementation schedules presented by each entity and issues a report indicating the degree of implementation of its recommendations—implemented, partially implemented, or not implemented—for which administrative responsibility reports are issued in line with article 16 of Law No. 1178.

310. The follow-up of the implementation of the recommendations included in the audit reports is designed to measure the efficacy of governmental control, its contribution to

[78] Information obtained from the notes to the central administration financial statements for FY2008.

improving the entities subject to evaluation, and to verifying compliance with the effective regulations related to the Governmental Administration and Control Systems comprised in Law No. 1178. The FY2008 report of the General State Comptrollership gives evidence to the follow-up results in Table 3.16 . Just below 18 percent of the total recommendations had been implemented within one year or more, and 44 percent were partially implemented. Specifically, the annual report does not disclose the responsibility reports resulting from non-implemented recommendations.

Table 3.16 Follow-up on Implementation of Recommendations of General State Comptrollership

Reports issued	***Total recommendations***	***Total implemented recommendations***	***Partially implemented***	***Not implemented***	***Not applicable***	***Not evaluated***
2,424	385	68	171	143	2	1

Source: PEFA review team based on the Report of the State General Comptroller for Fiscal Year 2008.

311. The results obtained in the follow-up conducted by the General State Comptrollership have discouraged its coverage to the extent that for 2009 the General State Comptrollership has reduced the time dedicated to compliance reviews to 20 percent.[79] This is not exclusive of the General State Comptrollership because, as reported under PI-21 on the efficacy of the internal audit, there is no evidence of a clear commitment on the part of the public entities to correct errors and adopt the recommendations contained in audit reports. Consequently, these indicators create doubts on the effectiveness of external control and its cost-benefit.

Indicator	Score	Explanation
PI-26 Scope, nature, and follow-up of external audit	**D+(*)**	**Scoring Method 1**
(i) Scope/nature of audit performed (including adherence to auditing standards)	D	The General State Comptrollership does not audit financial statements of the central administration, or the consolidated budget execution, either at the general level of the financial statement reported by the Executive or at the level of individual entities.
(ii) Timeliness of submission of audit reports to legislature	A	All the reports issued by the General State Comptrollership, regardless of the type of audit or review, such as follow-up ones, are submitted to the Legislature within four months of the end of the study period.
(iii) Evidence of follow up on audit recommendations.	B	There is a formal commitment by the chief executive authority of the audited entity to implement the recommendations issued by the General State Comptrollership. Based on that document, the General State Comptrollership plans and conducts the respective follow-up. However, the time allocated to this activity has been reduced to 20%.

(*) According to the method 1 scoring, the external audit function that this indicator is intended to measure is strongly affected by dimension (i) due to the low coverage of the external audit work as compared to the total expenditure; in that respect the lack of external audit of the public sector financial statements and budget execution is fundamental.

[79] Information provided by the External Audit Sub-Comptrollership during the interviews conducted for the review.

PI-27 Legislative scrutiny of the annual budget law

312. This indicator evaluates the powers and capacities of the Legislative branch to examine, debate, and provide for the approval of the annual budget law, as well as in-year budget amendments.

313. The Legislature (the National Congress under the old Constitution; the Plurinational Legislative Assembly under the new) is comprised of two chambers: Deputies and Senators. Both chambers are responsible for reviewing and approving the budget, in accordance with the process established in the Constitution.

(i) Scope of the legislature's scrutiny

314. As described in the analysis of PI-6, the draft budget submitted by the Executive includes a brief aide-memoire with the basic assumptions and objectives for the corresponding fiscal year. The Finance Committee of the Chamber of Deputies—which (pursuant to the Constitution) is the first chamber to receive the documents for their review—in the first few days upon receiving the bill invites the MEFP Minister to explain the assumptions and objectives and answer questions. As the usual case with committee meetings, this meeting is open to the public. Likewise, during the review there is coordination with the main MEFP officials. However, at least in the last years, the Committees have not asked the sector ministers or the senior authorities of other entities to explain their initiatives. At a sectoral level, this examination is basically limited to reviewing specific requests coming in writing from some (around 20) decentralized institutions and subnational entities that ask for their budgets to be reviewed.

315. The analysis of the fiscal policies and priorities that takes place at the budget approval stage is somewhat limited, and two issues were identified: (a) the format in which the draft budget is submitted and the lack of a multiannual view, and (b) the limited technical capacity in support of the analysis by the Legislature.[80]

316. Although there is a certain level of analysis and discussion, at least on the side of the Chamber of Deputies, Congress did not complete the 2008 budget scrutiny and approval process (the period on which the analysis of this indicator is based). The same is the case with the budget scrutiny and approval processes for 2007 and 2009—in part because of the reasons described for FY2008 above and those in the following dimensions.

(ii) Extent to which the legislature's procedures are well established and respected

317. The Constitution provides the basic rules for the approval process. First, deadlines are established for the presentation of the annual budget bill from the Executive to the Legislature. Second, procedures are provided for the examination to be first conducted by the Chamber of Deputies; after its approval is issued, the examination continues in the Senate. In case of sustained discrepancies between both chambers, a joint meeting is required to decide on the budget approval. Third, after presentation of the bill by the Executive, the Legislature has a maximum of 60 days to approve the budget.

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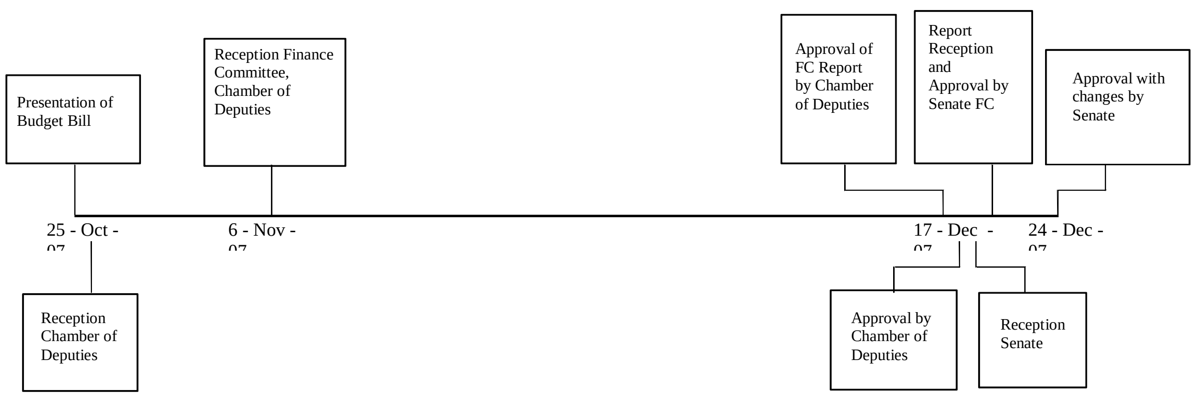
[80] The Finance Committee of the Chamber of Deputies only has a Technical Secretary who is responsible for conducting the review and preparing reports supplementing the information submitted by the Executive to facilitate the discussion by the members of the Committee.

318. On the other hand, regulations of the Legislature stipulate that to review any bill, the corresponding committee in each Chamber has 15 days to discuss and issue its approval.[81] However, traditionally these time limits have not been respected in the examination and approval of the annual budget bill due, it is argued, to its complexity, which generates a void at the intermediate stages prior to reaching budget approval.

319. The approval stages for FY2008 budget, as illustrated in Figure 3.1, shows the budget bill sent almost immediately to the Chamber of Deputies, which studies it during a period of one and a half months, with the work in the Finance Committee taking up most of the time. In comparison, the Senate sent its budget proposal within 6 days, without leaving enough time to attempt to reconcile and approve the budget within the 60 days stipulated in the Constitution.[82]

Figure 3.1 Timeline of Approval of the 2008 National General Budget



Source: Finance Committee of the Chamber of Deputies.

(iii) Adequacy of time for the legislature to provide a response to budget bill proposals

320. In case the budget is not approved within the 60 days, by constitutional mandate the budget bill sent by the Executive to the Legislature in effect becomes the approved budget for the year in question.

(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature

321. The Constitution specifies that the President of the Republic has the power to propose to the Legislature "during its effectiveness, any amendments deemed convenient" in the budget.[83] The requests for budget amendments to the Legislature are first discussed in the Chamber of Deputies, then in the Senate; and if discrepancies persist they are taken to the Plenum of the Legislature. But, as opposed to the process of approval of the original budget bill, these

[81] See Articles 139 and 127 of the General Regulations of the H. Senate and the H. Chamber of Deputies, respectively.
[82] Similarly, at the 2009 budget approval stage, on December 21, 2008, the Chamber of Deputies approved their budget proposal on the budget bill sent by the Executive on October 28, 2008, and in that case the Senate Committee was unable to conclude its report, that was sent on January 7, 2009.
[83] Article 97 of the old Constitution and Article172 of the new one.

discussions are not restricted to the 60-day period—more than 3 months were required to approve the amendment proposal presented by the Executive in 2008.

322. The Executive bundles the amendments to be proposed to the Legislature in a single significant request per year. However, the Constitution itself and other laws approved by the Legislature give the Executive broad powers to introduce budget amendments, in the framework of the following:

- The Constitution (article 148 of the old, and article 339 of the new) empowers the President to decree payments not included in the budget to address clear emergencies for an annual amount not in excess of 1 percent of the total expenditure approved in the National General Budget.
- The Budget Administration Law (Law No. 2042 of December 1999) gives the Executive powers to make budget amendments—within and across institutions—according to standards regulated by the Executive through a Supreme Decree (article 6) provided that (i) the total expenditure amount is not increased (except 1 percent for emergencies established in the Constitution and other cases); (ii) expenditure is not transferred to remunerations (personal services, to be more precise) from other expenditure items (except for changes resulting from the annual public sector salary increase); and (iii) budget appropriations allocated to investment projects are not transferred to current expenditure.
- Law No. 2042 also grants the MEFP the power to (i) include in the budget the expenditure corresponding to grants and external credits that were not included in the original budget, with the only requirement of reporting to the Legislature ex post on a half-yearly basis (but contracting external credits is approved by the Legislature through an explicit law); and (ii) incorporate higher royalties into the budget if these are higher than considered in the original budget, with the only requirement of reporting it later to the Legislature.
- Similarly, transfers for tax-sharing in domestic revenues and on the Direct Tax on Hydrocarbons have to be transferred in accordance with the Popular Participation Law and the Hydrocarbons Law within the established times, increasing transfers automatically.
- Supreme Decrees are used to regulate specifically the authorities responsible for approving each of the amendments and their registration in SIGMA.[84] All the budget increases as well as most of the transfers between institutions (inter-institutional transfers), which do not require Congressional approval, require a resolution by the Executive, the MEFP or its Deputy Ministries, or the Development Planning Ministry. The rest of the transfers (within an institution) can take place with the sole approval of the chief executive authority while abiding by the restrictions that provide for approval from a higher instance.

323. It should be noted that making use of Supreme Decrees, the Executive has made transfers of General National Treasury funds into a trust fund in the Productive Development Bank for capital expenditure (making possible the nationalization by YPFB of private oil entities). These

[84] For the 2008 under review, Supreme Decree No. 27849 was applicable; it was then replaced by Supreme Decree No. 29881 of January 2009.

transfers represented US$85 million in 2007 and almost US$200 million in 2008 (and continued during the current year).[85] However, the authorization for 2008 transfers came from the budget amendment law—although two-thirds of these transfers were made prior to the approval of such law.

Indicator	*Score*	*Explanation*
PI-27. Legislative scrutiny of the annual budget law	**D+(*)**	**Scoring Method 1**
(i) Scope of the legislature's scrutiny	D	The examination made separately by each Chamber comprised fiscal aggregates as well as some breakdown of income and expenditure, but the analysis by the Legislature was not completed within the legally required time frame.
(ii) Extent to which the legislature's procedures are well established and respected	D	Although some procedures exist for budget review and approval by the Legislature, they are not comprehensive, are not respected, and have not guaranteed the completion of the review in the last years.
(iii) Adequacy of time for the legislature to provide a response to the budget bill proposals	A	The Legislature has exactly 2 months (60 days) to examine and approve the annual budget.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	C	There are clear rules that are respected, but they may provide for broad administrative reallocations and the expansion of the total expenditure.

(*) The overall score for this indicator is strongly affected by the fact that the Legislature failed to complete its review of the budget bill submitted by the Executive and, consequently, to approve it. A higher score requires a comprehensive examination and respect for the legislative procedures established to ensure the budget review and approval.

PI-28 Legislative scrutiny of external audit reports

324. Although the Political Constitution prescribes that the Legislature, through its Committees, will have broad powers of oversight on the autonomous and self-managing entities and on mixed economy enterprises, this power is not exercised with regard to the scrutiny of external audit reports. As described in PI-26, all the reports issued by the General State Comptrollership are sent to the Legislature and generally derived to the Finance Committee of the Honorable Chamber of Deputies. Neither the Finance Committee of the Chamber of Deputies nor the Senate Committee has the necessary resources to conduct a systematic study and review of the audit reports, and simply file them. For this reason and because the audit reports are not reviewed, neither the Chamber of Deputies nor the Senate directly or through their Finance Committees are practiced in holding hearings on the major findings of these reports and, consequently, do not make recommendations on measures and execution to the Executive.

[85] Transfers were authorized by Supreme Decree No. 29365 of December 2007, Supreme Decrees Nos. 29529, 29726, and 209865 of 2008, and have continued in 2009 at least with Supreme Decree No. 17, of February 2009.

325. It is important to bear in mind that neither the Political Constitution nor the Regulations of the National Chamber of Deputies or the Senate establishes procedures to review external audit reports. Notwithstanding, at the request of members of the Legislature, officials are asked to appear before the Legislature to answer questions but, as indicated, these are not precisely based on the outcome of a review of the external audit reports.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

326. All reports issued by the General State Comptrollership, with the scope and characteristics described under PI-26, are sent to the Legislature, which keeps them on file without further examination. As described in PI-27, the General State Comptrollership does not prepare or send to the Legislature audit reports on the budget execution of annual financial statements.

(ii) Extent of hearings on key findings undertaken by the legislature

327. The Legislature does not hold hearings to deal with the findings in the reports received from the General State Comptrollership, stemming from a systematic review of the external audit reports received.

(iii) Issuance of recommended actions by the Legislature and implementation by the Executive

328. No measures are recommended by the Legislature. The Finance Committees of the Senate and the Chamber of Deputies lack resources to evaluate the reports they receive.

Indicator	Score	Explanation
PI-28 Legislative scrutiny of external audit reports	**D**	**Scoring Method 1**
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	The Legislature does not make an examination of the external audit reports received from the General State Comptrollership..
(ii) Extent of hearings on key findings undertaken by the legislature.	D	No in-depth hearings are conducted by the Legislature.
(iii) Issuance of recommended actions by the Legislature and implementation by the Executive	D	No recommendations are issued by the Legislature.

(*) The overall score for this indicator is considerably affected by the lack of systematic review by the Legislature of the external audit reports—within a defined period—with which would allow them to hold hearings with the authorities of the entities on the findings in such reports and, in turn, issue recommendations.

3.7 Donor Practices

329. This section examines some of the elements in the practices of the cooperation agencies that may influence the general performance of the country's public finances.

D-1 Predictability of Direct Budget Support

330. General budget support is aid funding to a government that is not allocated to specific projects or expenditure items and that is disbursed through the financial management system of the receiving government. However, in the context of the harmonization of the Official Aid for Development, budget support is understood to mean the direct contributions to the National General Treasury, to be used for initiatives and priorities defined by the governmental accounting and disbursement mechanisms.[86]

331. In Bolivia, the last experience with this form of support took place, during 2004 and 2005, with the Multi-donor Budget Support Program (*Programa Multidonante de Apoyo Presupuestario*), an initiative designed to restore fiscal stability, improve public finance management, and achieve financial sustainability through financial support to the National General Budget, including public debt service payments.[87]

332. In the review period 2006-2008, some initiatives and types of operations, which have elements of direct budget support, could because of their characteristics be characterized as sectoral budget support initiatives. Thus, in 2006 a loan agreement for 6 million Euros was executed by KfW and the Ministry of Finance and with World Bank co-financing. The Social Sectors Programmatic Development Policy Credit II (SSPC II) constituted budget assistance to implement Bolivia's Poverty Reduction Strategy and the policies needed to improve basic services in the education, health, and drinking water and sanitation sectors. This program was the second phase of the Global Poverty Reduction Program and complemented the measures taken in the framework of the Social Sector Programmatic Structural Adjustment Credit I (SSPAC I) of 2004. The SSPC II was disbursed in a single tranche in 2006 and, as had been agreed, the amount was included in the National General Budget in a timely manner. However, according to the project document,[88] these resources were to be exclusively allocated to the poverty reduction program.

333. There exist several sectoral budget support initiatives, an arrangement whereby one or several donors provide support to the sectoral budget by means of a financial, institutional, programmatic, and policy framework agreement through the state's fiscal system. These funds are recorded jointly in the public budget but under the corresponding line ministry.

334. The European Union pioneered this type of support and is currently working with this instrument in support of the National Basins Plan with 19 million Euros, the Program in Support of the Sector Policy with the Coca Vice Ministry with 26 million Euros and Water and Sanitation, with the programs PASAAS and PASA, in their final stages.

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[86] *Evaluación Cualitativa de algunos Mecanismos, Instrumentos, y Modalidades de financiamiento en la Ayuda Oficial al Desarrollo en Bolivia,* Marcelo Barrón Arce, Royal Embassy of the Netherlands, Bolivia 2009.
[87] Memorandum of Understanding between the Government of Bolivia and the International Cooperation-Multidonor Multiannual Sector Budget Support for the Bolivian Poverty Reduction Policy, – Bolivia 2004.
[88] Point 1.2 of article 1 in the agreement between the KfW and the Government of Bolivia of March 16, 2006, makes the point that the borrower will use the loan exclusively for the Poverty Reduction Program. Within that framework, the loan will be granted to the borrower for cofinancing of the SSPC II and will essentially comprise budget assistance in support of the implementation of Bolivia's Poverty Reduction Strategy and the policy measures needed to improve basic services in the health, education, and drinking water and sanitation sectors.

335. The current trend is toward working in the framework of sectoral budget support, an instrument being promoted by the Government and used more frequently by donors, since both have expressed the will to move forward seeking a reduction in the transaction costs of cooperation; acquiring commitments for stable and medium-term disbursements; and adapting, to the extent possible, the external funds disbursement cycles to those of the country.

336. The establishment of a clear and concrete strategy, a formal coordination mechanism across the sector stakeholders and medium-term expenditure programming are important elements for sectoral budget support; and some of the most important foundations to move toward sectoral budget support are information transparency, fostering sectoral leadership, and supporting a single policy and plan. Such bases are different for each sector in the country. Some institutions have greater capacities than others, allowing donors to feel confident in financing the sector budget directly.

337. Basket funding, another form of budget support, are financial contributions that several donors make into a specific account and allocated to finance certain policies, plans, or activities agreed upon within the sector or with a specific institution. This instrument is widely used in the country, and, in general, specific memoranda of understanding or trust fund agreements regulate the disbursements from the baskets. Basket funding is mainly found in the education, health, and gender sectors, and in support of the ombudsman.

338. In accordance with the requirements of the methodology and the consultations held with the PEFA Secretariat, none of the initiatives described in the previous paragraphs, recorded as sectoral support, can be considered direct budget support, since they are defined for certain purposes and sectors. Consequently, this indicator is not scored for the period under review.

Indicator	*Score*	*Explanation*
D-1 Predictability of direct budget support	**N/A**	**Scoring Method 1**
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the Legislature	N/A	Bolivia received no direct budget support in the fiscal years under review: 2006, 2007, and 2008.
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	N/A	Bolivia received no direct budget support in the fiscal years under review: 2006, 2007, and 2008.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

339. The objective of this indicator is to evaluate the completeness and timeliness of donors' budget forecasts regarding support for projects and the frequency and coverage of reporting by the donors on their actual flows for project support. The information used to evaluate this indicator was obtained from the Vice Ministry of Public Investment and External Financing and also from each of the donors (the five major ones), that were interviewed and responded to a questionnaire prepared by the team.

340. The fiscal years of some donors differ from the government's fiscal year, so that the disbursement forecasts and actual disbursements are generally based on their respective fiscal years. The practices followed by donors to define the disbursement forecasts for the following year present some variations; however, the common element among them is that the calculation of the resources required by each project/program is initiated in the implementing

agency; based on the activities proposed, it determines the resources needed, shares this information with the donor, and is responsible for recording it in the National General Budget, following the rules established by the MEFP, which are described in more detail under PI-7.

341. The IDB, for example, requires the program/project implementing agencies, with which it works, to develop disbursement forecasts three months in advance of the start of the fiscal year (January). These consolidated estimates are communicated to the government (Vice Ministry of Public Investment and External Financing, Central Bank of Bolivia, and Vice Ministry of Treasury and Public Credit) in December. However, it is expected that the required program/project budget has already been duly included in the draft budget of each implementing agency. The update of these disbursement forecasts is communicated on a monthly basis to the implementing agencies and MEFP.

342. The cases of the World Bank, the European Commission Delegation, the Andean Development Corporation, and Germany are similar since project implementing entities based their budget required for each fiscal year on their preparation of their annual operating plan and their procurement plan, while ensuring its inclusion in the National General Budget.

343. Project approved but not yet effective—although disbursement estimates may be agreed and even reported to the Vice Ministry of Public Investment and External Financing, depending on the dynamics of each donor—are not included in the National General Budget. This is attributed to the uncertainty regarding the time between the approval and the effectiveness dates (between these two landmarks lie the execution of the financing agreement, the approval of the law, and compliance with the effectiveness conditions). Consequently, the estimated budget is not recorded until the credit is declared effective.

344. Based on all this information, the Vice Ministry of Public Investment and External Financing makes estimates of the disbursements programmed for each fiscal year on the basis of the implementation capacity of each implementing agency and the history of disbursements in the previous year and/or the status of approval and effectiveness of new credits/loans.

345. The breakdown of the estimates, in general, is classified into project components and sub-components. The expenditure categories established in the financing agreements do not coincide precisely with the classification used by the Government (except in the case of the KfW), the forecasts of which use the Government's budget classification through the implementing entities.

346. The timeliness in the registration of donor support in the budget is a responsibility of the implementing agencies, which carry out this task following the Vice Ministry of Budget and Fiscal Accounting (*Viceministerio de Presupuesto y Contabilidad Fiscal-VMPCF*) standards. Most of the donors present disbursement reports, on a monthly (or a quarterly basis, in the case of a few). In addition, there are agencies, such as the World Bank, which provide the Vice Ministry of Public Investment and External Financing and the implementing agencies with online access to their systems (Client Connection), this allows monitoring and obtaining information on disbursements at any time, per agreement and implementing agency.

(i) Completeness and timeliness of budget estimates by donors for project support

347. The main donors (multilateral and bilateral) provide and agree forecasts of project disbursements before the start of the year so that the implementing agencies may ensure the registration of these forecasts in the budget. Taking into account the timing established by the

VMPCF to develop the budget draft for each entity, these discussions and agreements between the donors and the implementing agencies need to take place around September to October. However, in general, they do not use the Government's budget classification.

348. In addition, depending on the practices and policies, some agencies may provide and/or communicate their global disbursement forecasts as a function of their assistance strategies and programs defined with the Government. However, these data are used mostly for monitoring purposes by the Vice Ministry of Public Investment and External Financing and the agency, rather than to ensure or allow for registration in the budget.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

349. Most donors (multilateral and bilateral), present monthly and/or quarterly disbursement reports, although there are also some donors that do not provide the government with any kind of information. In general, the breakdown of the forecasts is based on the donor's classification. Table 3.17 shows the frequency of disbursement reports for the five main agencies.

Table 3.17 Information Supplied by Donors on Flow of Funds to Projects and Programs

Questions	CAF	IDB	EU	World Bank	Germany (KfW+GTZ)	Comments
Do the most important donors provide the Government with quarterly reports on the actual disbursements on their projects/programs?	Yes	Yes	Yes	Yes	Yes	Some report on a monthly basis
If so, when do the donors provide their reports (one month following the end of the quarter, two months, more than two-months)?	Monthly information	Monthly information	One month after the end of quarter	Monthly information	One month after the end of quarter	
Are the reports classified in the same way as the Government's budget?	No	No	No	No	No	
Which is the percentage of donor's projects and programs support flow for which actual disbursement information is reported to the Government one month following the end of the quarter for the last year and also for the key expenditure categories according to the government's budget classification?	100%	100%	100% as required	100%	100%	Disbursements are not made according to governmental expenditure categories.

Indicator	*Score*	*Explanation*
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	**C**	**Scoring Method 1**
(i) Completeness and timeliness of budget estimates by donors for project support	C	Most donors (bilateral and multilateral) agree disbursement forecasts with the implementing agencies before the start of the fiscal year although they do not follow the Government's budget classification.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	C	The main donors covering over 50% of the forecasted estimates provide quarterly information (and in some cases monthly information) within the month following the end of the period. The information does not always provide a breakdown consistent with the government classification.

D-3 Proportion of aid that is managed by use of national procedures

350. The purpose of this indicator is to establish the overall share of donor funds (loans or grants) managed in accordance with national procedures in four fields: procurement, payments and accounting, audit, and reporting. This indicator was evaluated using information provided by the Vice Ministry of Public Investment and External Financing, regarding donor disbursed amounts in fiscal years 2006, 2007, and 2008, and the detailed information provided by the major agencies on the basis of the questionnaire prepared by the team.

351. In general, grants from bilateral donors mostly make use of national procurement procedures: however, the multilateral agency credits/loans normally make use of the regulations established in their own procedures.

352. Also the use of accounting and payment procedures is more extensive, for both bilateral and multilateral donors. According to current regulations, both credit and grant funds must be recorded in the budget and, on that basis, their execution is processed via SIGMA when payments are made through the Single Treasury Account; therefore, the need to open separate special accounts has decreased.

353. With regards to auditing arrangements, most donors do not make use of the audits conducted by the General Comptrollership of the Republic, but rather require external audits carried out by private firms for each financing agreement.

354. With regard to the financial reports required by each lender, although individual transactions in each project are registered, processed, and reported in SIGMA, in general SIGMA budget execution reports must be supplemented with additional reports in the formats required by donors in accordance with the regulations and policies established by each agency.

355. Table 3.18 summarizes the proportion of aid managed using national procedures.

Indicator	*Score*	*Explanation*
D-3 Proportion of aid that is managed using national procedures	**C**	**Scoring Method M1**
(i) Overall proportion of aid funds to central government that are managed through national procedures	C	50% or more of donor-disbursed funds are managed through national procedures.

Agency	*National procedures*				*Disbursements 2006 (US$ '000)*	*% of support per donor 2006[b]*	*Disbursements 2007 (US$ '000)*	*Disbursements 2008 (US$ '000)*	*% of support per donor 2008[b]*	*Average specific weight June-08*
	Procurement	*Payment/ accounting*	*Auditing*	*Reporting*						
CAF	Yes	Yes	No	Yes	39,604	15.92	137,420	369,015	69.18	41.68
IDB	No	Yes	No	No	51,645	20.76	45,604	40,527	7.60	13.87
EU[a]	Yes	Yes	No	No	43,639	17.54	31,716	19,324	3.62	10.13
GTZ	No	No	No	No	4,494	1.81	11,592	15,685	2.94	2.70
KFW[a]	Yes	Yes	Yes	Yes	9,054	3.64	7,530	11,959	2.24	2.69
World Bank	No	Yes	No	No	10,135	4.07	11,443	22,850	4.28	3.89
JICA	No	No	No	No	11,873	4.77	11,262	22,825	4.28	4.11
USAID	No	No	No	No	45,576	18.32	37,221	14,415	2.70	10.61
Netherlands	Yes	Yes	No	Yes	18,136	7.29	28,568	5,502	1.03	5.54
Denmark	Yes	Yes	No	Yes	11,789	4.74	15,460	5,505	1.03	3.42
Belgium	Yes	Yes	Yes	Yes	2,878	1.16	6,333	5,815	1.09	1.36
Total reviewed					**248,823**	**100.00**	**344,149**	**533,422**	**100.00**	**100.00**

[a] Through the implementing agency.

[b] The percentage of the weight of each donor in the sample.

Summary	*% in use*
National procurement procedures	65
National payment and accounting procedures	83
National auditing procedures	4
National reporting procedures	55
Average use of national procedures	**52**

Section 4.4. Public Sector Reform Process

356. Although in the last years Bolivia has not had an integrated and formal plan for public sector reform and specifically for public financial management, it is important to note that critical actions have been carried out in certain areas, which have contributed to improving public financial management generally, including the adoption of sound and modern PFM practices.[89] These achievements are even more notable taking into account the country's political, economic, and social context.

4.1 General Description of Recent and On-Going Reforms

357. The following summary describes the main reforms being implemented and strengthened in the area of public financial management in Bolivia.

PFM legal framework

358. With the approval of the new Political Constitution, the MEFP began preparing a new Public Management Law and adapting and updating the basic standards of the main PFM elements to reflect, among other things, the potential changes that could emerge from the new territorial arrangements. This work is still at an initial stage and requires a very broad coordination with other stakeholders, not only at the central but also regional and municipal levels.

Budget formulation

359. ***Macro-fiscal forecasts.*** The process of budget formulation includes a technical exercise incorporating key entities in revenue generation such as the National Tax Service, National Customs, National Statistics Institute, Social and Economic Policy Analysis Unit, Central Bank, Ministry of Development Planning, and the MEFP to establish the major macro-economic assumptions and thus the fiscal revenue forecasts. The incorporation of this technical exercise as part of the formulation process has improved the macro-fiscal forecasts, thus overcoming a weakness identified in previous years regarding the usual revenue forecasts. On the other hand, work has also begun—although at a very preliminary stage—in what could constitute a Multi-annual Fiscal Macroeconomic Framework.

360. ***Functional expenditure classifier***. Functional classifiers in accordance with COFOG began being implemented since 2006. Despite this classification being used in the formulation stage and in the execution stage, the fiscal administration ex post financial statements do not yet include it although it is available in SIGMA.

361. ***Budget coverage***. With the approval of the new Constitution, the Budget Directives for the 2010 budget seek to have the budget bill that is submitted to the Legislature comprise the whole

[89] Many of these actions result from the analysis and review work carried out between 2004 and 2006 as the PER (Public Expenditure Review, 2006) or the 2004 CFAA, besides other specific reviews coordinated with other agencies. Until the year 2006, the Multidonor Budget Support Program was framed within a strategic plan for public finance strengthening, which gave rise to some actions that were completed.

of the state, which implies that the municipalities and universities will have to include their self-generated income and the expenditure made with such income.

Integrated Administrative Management and Modernization System (SIGMA)

362. The MEFP has worked in solving the major weaknesses detected in the operation of SIGMA in recent years and, on that basis, has been able to expand the implementation of the system—although without its full functionality—to decentralized and subnational entities. To date, SIGMA coverage includes 23 central administration units (100 percent), 7 prefectures (77 percent), 7 municipalities (2 percent), 49 decentralized entities (66 percent), 2 social security entities (40 percent) and 5 non-financial public enterprises (24 percent), reaching approximately 85 percent coverage of the National General Budget according to data on FY2008 execution.

363. In addition, the interfaces of SIGMA with SIGADE have been completed (this is the system used to record and control the domestic and external debt), which allows the information entered into SIGADE to automatically generate the required records in SIGMA for debt service.

364. With the integration of the management of all the information systems under the General Directorate of Fiscal Information Management, the interface between SIGMA and SICOES (Government Procurement System) has begun being prepared. Another effort launched by the General Directorate of Fiscal Information Management is designing a SIGMA 2; for that reason an audit of the current SIGMA functionality and operation was discarded.

Sub-national debt

365. Based on the experience developed with the Financial Adjustment Program, the Institutional and Financial Performance Program (*Programa de Desempeño Institucional y Financiero*) was created in May 2007 as an instrument to generate institutional, fiscal, and financial discipline in the public sector entities and institutions. As of the date of this study, the MEFP had signed nine institutional financial performance agreements (7 municipal governments, 1 university and 1 state-owned enterprise). Supplementing this effort, the MEFP has also worked in the development of an Administration and Information System for Subnational Debt (*Sistema de Administración e Información de Deuda Subnacional*), which will enable the registration, control, and monitoring of the subnational debt.

4.2 Institutional Factors Supporting Reform Planning and Implementation

366. With the approval of the new Political Constitution, there is the need to introduce a series of adjustments, updates and adaptations in the PFM regulatory framework, something which at the same time opens up the opportunity to begin developing a complete plan to reform the public sector and the public financial management systems.

367. The improvements formulated so far have relied heavily on the MEFP, the leadership of which has been fundamental; however, in the current context, the preparation and later application of a reform plan for PFM systems will require a greater level of coordination with other government spheres, including both central government entities and the subnational levels and critical entities such as the General State Comptrollership, Congress (the current Plurinational Legislative Assembly) as well as other stakeholders that can contribute to the reform process as the donor community.

368. Such interactions will be critical at the time of defining the priorities and sequence of measures, including where complementary analyses may be necessary to define specific actions and review and consider the existence of the capacities required to move forward with any actions that may be proposed.

Annex 1. Spreadsheet for PI-1 and PI-2

Box A. Fiscal Year 2006

Fiscal Year:	2006				
Institutions	**Orig. Budget**	**Paid**	**Difference**	**Diff. abs. value**	**% dev.**
National General Treasury [a]	15,039.29	14,548.01	-491.28	491.28	3.3%
Ministry of National Defense	1,231.33	1,174.41	-56.92	56.92	4.6%
Ministry of Interior	952.11	884.01	-68.10	68.10	7.2%
Ministry of Hydrocarbons	10.93	849.55	838.62	838.62	7675.5%
National Health Mutual	987.08	730.68	-256.40	256.40	26.0%
Bolivian Road Administration [b]	781.00	598.74	-182.26	182.26	23.3%
Ministry of Public Works, Services and Housing	25.43	307.62	282.19	282.19	1109.7%
Judiciary	344.76	294.38	-50.38	50.38	14.6%
Ministry of Development Planning [c]	533.38	249.35	-284.03	284.03	53.3%
Military Social Insurance Agency	237.55	219.26	-18.29	18.29	7.7%
Legislative Branch	219.63	195.41	-24.22	24.22	11.0%
Police Health Mutual	263.20	173.30	-89.90	89.90	34.2%
Ministry of Rural Development, Agriculture and Environment	189.03	162.43	-26.59	26.59	14.1%
Ministry of Foreign and Religious Affairs	178.14	158.60	-19.54	19.54	11.0%
Ministry of Health and Sports	175.90	147.04	-28.86	28.86	16.4%
National Electoral Court	149.02	143.65	-5.37	5.37	3.6%
Ministry of Finance (now, MEFP)	138.24	115.56	-22.68	22.68	16.4%
National Tax Service	173.33	105.09	-68.23	68.23	39.4%
National Customs	147.18	101.74	-45.44	45.44	30.9%
Airport Administration and Aux. Serv. to Air Nav.	111.46	90.25	-21.21	21.21	19.0%
Rest of entities	1,137.14	872.09	-265.05	265.05	23.3%
Total primary expenditure	23,025.10	22,121.15	-903.94	903.94	3.9%
Composition Variance	23,025.10	22,121.15		3,145.57	13.7%

Box B. Fiscal Year 2007

Fiscal Year:	2007				
Institutions	**Orig. Budget**	**Paid**	**Difference**	**Diff. abs. value**	**% dev.**

National General Treasury [a]	18,662.99	16,826.84	-1,836.16	1,836.16	9.8%
Ministry of National Defense	1,266.83	1,385.70	118.87	118.87	9.4%
Ministry of Interior	1,162.58	1,108.84	-53.74	53.74	4.6%
National Health Mutual	998.67	783.38	-215.30	215.30	21.6%
Bolivian Road Administration	942.32	734.75	-207.57	207.57	22.0%
Ministry of Education and Culture	77.02	623.73	546.71	546.71	709.8%
Ministry of Public Works, Services and Housing	311.03	378.65	67.62	67.62	21.7%
Judiciary	377.93	338.04	-39.89	39.89	10.6%
Ministry of Health and Sports	442.09	224.77	-217.32	217.32	49.2%
Military Social Insurance Agency	247.48	222.13	-25.35	25.35	10.2%
Ministry of Hydrocarbons	11.63	217.78	206.15	206.15	1772.6%
Ministry of Rural Development, Agriculture and Environment	166.25	174.31	8.07	8.07	4.9%
Regional Health Oil Fund	267.84	173.76	-94.09	94.09	35.1%
Legislative Branch	236.83	171.23	-65.60	65.60	27.7%
Ministry of Foreign and Religious Affairs	177.38	157.52	-19.85	19.85	11.2%
National Tax Service	196.26	142.45	-53.80	53.80	27.4%
National Customs	157.07	109.01	-48.07	48.07	30.6%
Ministry of Finance (now, MEFP)	116.60	98.80	-17.79	17.79	15.3%
National Public Ministry	92.46	85.10	-7.36	7.36	8.0%
Telecommunications Superintendency	91.33	74.17	-17.16	17.16	18.8%
Rest of entities	1,281.17	1,168.89	-112.28	112.28	8.8%
Total primary expenditure	27,283.74	25,199.83	-2,083.91	2,083.91	7.6%
Composition Variance	27,283.74	25,199.83		3,978.73	14.6%

Box C. Fiscal Year 2008

Fiscal Year:	2008				
Institutions	**Orig. Budget**	**Paid**	**Difference**	**Diff. abs. value**	**% dev.**
National General Treasury [a]	22,868.48	27,438.76	4,570.27	4,570.27	20.0%
Ministry of National Defense	1,494.04	1,723.29	229.25	229.25	15.3%
National Health Mutual	1,203.47	841.85	-361.61	361.61	30.0%
Ministry of Interior	1,254.66	1,234.56	-20.10	20.10	1.6%
Bolivian Road Administration	837.67	862.52	24.85	24.85	3.0%
Ministry of Education and Culture	82.06	790.39	708.33	708.33	863.2%

Ministry of Rural Development, Agriculture and Environment	133.36	375.15	241.79	241.79	181.3%
Ministry of Public Works, Services and Housing	420.41	600.62	180.22	180.22	42.9%
Judiciary	423.11	358.25	-64.86	64.86	15.3%
Military Social Insurance Agency	291.71	292.55	0.84	0.84	0.3%
National Council of Police Housing	39.10	236.07	196.98	196.98	503.8%
Regional Health Oil Fund	305.84	221.03	-84.81	84.81	27.7%
Ministry of Health and Sports	521.87	215.06	-306.81	306.81	58.8%
Legislative Branch	193.24	201.01	7.77	7.77	4.0%
Ministry of Foreign and Religious Affairs	190.32	174.41	-15.91	15.91	8.4%
National Electoral Court	101.77	167.85	66.08	66.08	64.9%
Telecommunications Superintendency	124.51	151.94	27.44	27.44	22.0%
Army Corps of Engineers	65.71	130.01	64.30	64.30	97.9%
National Tax Service	213.95	128.68	-85.27	85.27	39.9%
Airport Administration and Aux. Serv. to Air Nav.	129.84	111.21	-18.63	18.63	14.3%
Rest of entities	1,812.23	1,396.12	-416.12	416.12	23.0%
Total primary expenditure	32,707.32	37,651.33	4,944.01	4,944.01	15.1%
Composition Variance	32,707.32	37,651.33		7,692.23	23.5%

[a] Basically these are transfers to entities outside central government.

[b] In 2006, it also includes the expenditure of the National Road Service, which it replaced.

[c] In 2006, it also includes the expenditure of the Ministry of Economic Development.

Source: General Directorate of Fiscal Accountancy.

Annex 2. CGE Coverage f 2008 Budget

Contraloría General del Estado
B O L I V I A

SCOPE OF AUDIT AT THE NATIONAL LEVEL FISCAL YEAR 2008							
Dept.	**Entity**	**Budget amount**	**Type of audit**	**Responsibilities**			
				ADM.	**CIV.**	**CRIM**	**EXE**
GPAE	National Lottery for Welfare and Sanitation	33,243,536	AUESP			X	
GPAE	National Police	2,202,481,818	AUESP	X			
GPAE	Empresa Metalúrgica Vinto Enaf	1,020,576,284	AUESP		X		
GPAE	National Road Service	94,839,354	AUESP		X		
GPAE	Prefecture of Tarija	2,131,303,472	AUESP		X		
GPAE	Directorate of Registry, Control and Administration of Seized Goods	243,145,912	AUESP		X		
GPAE	Superintendency of Banks and Financial Institutions	81,390,593	AUESP				
GPAE	Ministry of Finance	1,166,600	AUESP				
GPAE	National Customs of Bolivia	190,772,584	RPTA				
GPAE	National Health Mutual	1,459,281,208	AUESP				
GPAE	Bolivian Road Administration	2,005,481,625	SEGU				
GPAE	AASANA	158,369,755	SEGU				
GPAE	Ministry of Education	2,050,311,175	SEGU				
GPAE	Battallion of Physical Security of La Paz	1,322,270	SEGU				
GPAE	National Tax Service	224,945,925	SEGU				
GPAE	Bolivian National TV Company	14,009,053	SEGU				
GDB	Departmental Electoral Court of Beni	1,660,138	AUESP				
GDB	Departmental Health Service of Beni	2,231,130	AUESP				
GDB	Prefecture of Beni	501,420,417	AUESP				
GDB	National Health Mutual Regional Administration of Beni	1,818,399	AUESP				
GDB	National Tax Service District of Beni	11,977,935	AUESP				
GDH	National Tax Service District of Chuquisaca	17,218,791	SEGU				

Dept.	**Entity**	**Budget Amount**	**Type Of Auditing**	**Responsibilities**			
				ADM.	**CIV.**	**CRIM**	**EXE**
GDH	Judicial Council	22,786,620	SEGU				

GDC	Prefecture of Cochabamba	1,463,663,888	AUESP		X		
GDC	Mail Company of Bolivia	16,852,289	AUESP				
GDC	Directorate of Registry, Control and Administration of Seized Goods	23,243,536	SEGU				
GDC	National Institute of Land Reform	123,173,791	SEGU				
GDC	National Service of Public Pension System	1,500,000	SEGU				
GDC	Departmental Road Service	65,063,995	SEGU				
GDC	Departmental Education Service	101,319,024	SEGU				
GDC	Bolivian Ammunition Factory	38,906,357	SEGU				
GDL	Teaching Hospital	13,050,945	AUESP				
GDL	Departmental Health Service of La Paz	3,410,452	SEGU				
GDL	Departmental Social Service	157,291,256	SEGU				
GDL	Departmental Education Service - La Paz	249,291,256	SEGU				
GDL	Prefecture of La Paz	112,891,560	SEGU				
GDO	Departmental Electoral Court – Oruro	24,285,949	RELEV				
GDO	Prefecture of Oruro	745,585,595	RELEV				
GDO	Departmental Education Service – Oruro	2,055,653	SEGU				
GDO	Property Registry - Oruro	7,789,456	SEGU				
GDO	Regional Health Oil Fund Oruro	21,426,532	SEGU				
GDN	Cobija Free Zone Sub Administration	25,809,345	AUESP		X		
GDP	Departmental Health Service – Potosi	38,567,324	SAYCO				
GDP	Departmental Social Service	149,078,567	AUOPE				
GDP	University Social Security – Potosi	12,785,890	AUESP				
GDP	National Health Mutual Regional Administration of Potosi	39,993,208	AUESP		X		
GDP	Departmental Health Service – Potosi	32,789,675	SEGU				

Dept.	**Entity**	**Budget Amount**	**Type Of Auditing**	**Responsibilities**			
				ADM.	**CIV.**	**CRIM**	**EXE**
GDP	Judicial Council	13,789,575	SEGU				
GDP	"Daniel Bracamonte" Hospital Potosi	56,789,567	SEGU				
GDP	San Roque Hospital - Villazon	38,345,950	AUESP				

GDS	Municipal Hospital "San Juan E Dios"	38,765,456	AUOPE				
GDS	Municipal Hospital "Dr. Mario Ortiz"	45,290,789	AUESP		X		
GDS	Departmental Health Service	28,345,900	AUESP		X		
GDS	National Service of Public Pension System	24,789,420	SEGU				
GDS	Registry of National Identification - Santa Cruz Region	33,890,789	SEGU				
GDS	Directorate of Registry, Control and Administration of Seized Goods	26,738,290	SEGU				
GDS	Prefectural Road Service of Santa Cruz	58,345,909	SEGU				
GDT	Electrical Services Tarija	39,234,897	SEGU				
GDT	National Health Mutual Regional Administration	29,426,532	SEGU				
GDT	Prefectural Road Service of Tarija	24,178,343	SEGU				
GDT	Subprefecture of Yacuiba – Tarija	40,091,746	SEGU				
GDT	Prefecture of Tarija	2,131,303,472	AUESP				
Total audit coverage		**18,570,906,772**					
Total resources in state general budget		**111,618,871,671**					
Share of total central government expenditure included in the audit coverage of the last fiscal year audited:		**17%**					

Annex 3. PI-13 Transparency of Taxpayer Obligations and Liabilities

(Existence and Functioning of a Tax Appeals Mechanism)

Amounts per rulings of the Tax Superintendence

Box A FISCAL YEAR 2008 (Data from Jurídica 2008)

Concept	Type	Instance	New cases	Change of jurisdiction	Finished: In favor of SIN	Finished: In favor of the tax payer (or	Finished: Partially: Appealed	Finished: Partially: in favor of SIN	Finished: Total
TAX ADMINISTRATIVE COURTS	CASES	*1st Instance*	354	1	36	14		28	**78**
		2nd Instance	6	27	4	2		2	**8**
		Supreme Court	3	0	14	4		9	**27**
	AMOUNT	*1st Instance*	1.295.656.002	292.041	32.612.283	1.668.597	6.293.946	2.063.822	**40.574.826**
		2nd Instance	6.983.993	0	391.873	3.529.374	848.457	127.611	**4.769.704**
		Supreme Court	4.934.236	0	94.024.501	1.957.986	35.547.667	27.726.996	**131.530.154**
TOTAL CASES			**363**	**28**	**54**	**20**		**39**	**113**
TOTAL AMOUNT			**1.307.574.231**	**292.041**	**127.028.657**	**7.155.957**	**42.690.070**	**29.918.429**	**176.874.684**

Concept	Type	Instance	New cases	Change of jurisdiction	Finished: In favor of SIN	Finished: In favor of the tax payer (or	Finished: Partially: Appealed	Finished: Partially: in favor of SIN	Finished: Total
PRETRIAL	CASES	*Appeal*	633	2	202	88		9	**299**
		Hierarchical appeal	24	2	117	64		13	**194**
		Cont. Admi.	7	1	0	0		0	**0**
	AMOUNT	*Appeal*	99.112.470	44	475.961.392	5.523.936	1.017.721	14	**482.503.049**
		Hierarchical appeal	2.328.086	105	67.533.219	2.825.972	10.084.099	453	**80.443.290**
		Cont. Admi.	6.520.782	1.065.033	0	0	0	0	-
TOTAL CASES			**664**	**5**	**319**	**152**		**22**	**493**
TOTAL AMOUNT			**107.961.338**	**1.065.182**	**543.494.611**	**8.349.908**	**11.101.820**	**467**	**562.946.339**

Annex 4. PI-14 Effectiveness of Measures for Taxpayer Registration and Tax Assessment

(Planning and Control of Tax Auditing Programs)

Box B Information on cases and Monthly Collection FY 2008

NATIONAL TAX ASSESSMENT DIVISION

OPERATING EVALUATION AND QUALITY CONTROL DEPARTMENT

MONTHLY PERIOD	CASES								
	FE	VE	VI	OVE	AISC	TA	AISC PROJECT	CLAUS.	CP (*)
JANUARY	1	53	246	729	215	115		6	1.388
FEBRUARY	7	92	332	761	375	71		47	2.538
MARCH	7	87	293	841	317	91		131	2.503
APRIL	9	125	320	5.260	409	96		105	1.637
MAY	5	157	363	1.887	228	100		701	2.090
JUNE	10	189	752	189	225	79		33	2.216
JULY	5	118	452	67	197	82		25	1.830
AUGUST	10	156	648	53	192	89		32	5.340
SEPTEMBER	10	191	448	25	117	63		11	1.471
OCTOBER	8	237	709	87	127	102		28	1.417
NOVEMBER	13	175	686	14	193	77		28	2.471
DECEMBER	38	365	1.181	17	79	47		629	4.482
TOTAL	**123**	**1.945**	**6.430**	**9.930**	**2.674**	**1.012**	**0**	**1.776**	**29.383**

Annex 5. PI-19 Procurement

Box A. Contracts Awarded between 2008 and the First Semester of 2009 by Form of Procurement

AMOUNT	MODALITY	QUANTITY	PERCENTAGE	2008
WITH PUBLIC BIDDING Lower amounts (>Bs20,000) * Without amount limit Supreme Decree No. 29190	National Support to Production and Employment (20,000 – up to Bs. 200,000)	46,472	72.41%	**86.82%**
	National Support to Production and Employment (Proposals - from Bs. 200,001 to Bs. 500,000)	9,246	14.41%	
WITH PUBLIC BIDDING Higher amounts	Public bidding	5,748	8.95%	**8.95%**
WITHOUT BIDDING	Emergency procurement	678	1.07%	**4.23%**
	Direct procurement	1709	2.66%	
	Exception-based procurement	323	0.50%	
TOTAL		**64,176**	**100%**	**100%**

AMOUNT	MODALITY	QUANTITY	PERCENTAGE	Junio 2009
WITH PUBLIC BIDDING Lower amounts (>Bs20,000) * Without amount limit Supreme Decree No. 29190	National Support to Production and Employment (20,000 – up to Bs. 200,000)	16,597	71.82%	**86.55%**
	National Support to Production and Employment (Proposals - from Bs. 200,001 to Bs. 500,000)	3,404	14.73%	
WITH PUBLIC BIDDING Higher amounts	Public bidding	2,407	10.41%	**10.41%**
WITHOUT BIDDING	Emergency procurement	156	0.68%	**3.04%**
	Direct procurement	439	1.90%	
	Exception-based procurement	106	0.46%	
TOTAL		**23,109**	**100%**	**100%**

Box B. Comparison between Procurement Processes Initiated and Effectively Completed in 2008 and the First Semester of 2009

Year 2008

AMOUNT	MODALITY	INITIATED	CONTRACTED	PERCENTAGE
WITH PUBLIC BIDDING Lower amounts (>Bs20,000) * Without amount limit Supreme Decree No. 29190	National Support to Production and Employment (from 20.000 – up to Bs. 200.000)	46,472	35,455	76.30%
	National Support to Production and Employment (from Bs. 200.001 to Bs. 500.000)	9,246	7,276	78.70%
WITH PUBLIC BIDDING Higher amounts	Public bidding (from Bs. 500.001 onwards)	5,748	4,295	74.70%
TOTAL		**61,466**	**47,026**	**76.51%**

- Of the total of processes initiated in the above mentioned modalities, 76.51% was contracted in 2008.

As of June 2009

AMOUNT	MODALITY	INITIATED	CONTRACTED	PERCENTAGE
WITH PUBLIC BIDDING Lower amount (>Bs20,000) * Without amount limit Supreme Decree No. 29190	National Support to Production and Employment (from 20.000 – up to Bs. 200.000)	16,597	12,163	73.20%
	National Support to Production and Employment (from Bs. 200.001 to Bs. 500.000)	3,404	2,316	68%
WITH PUBLIC BIDDING Higher amount	Public bidding (from Bs. 500.001 onwards)	2,407	2,005	83.30%
TOTAL		**22,408**	**16,484**	**73.56%**

- Of the total of processes initiated in the above mentioned modalities, 73.56% was contracted as at June 2009.

Source: Information provided by SICOES and own calculations.

Annex 6. Scoring Methodology

Scoring	Minimum Requirements (scoring method M1)
A. PFM SYSTEM OUT-TURNS: Credibility of the budget	
PI-1	Aggregate expenditure out-turn compared to original approved budget
A	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
B	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.
PI-2	Composition of expenditure out-turn compared to original approved budget
A	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
B	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
C	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
D	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.
PI-3	Aggregate revenue out-turn compared to original approved budget
A	(i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.
B	(i) Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years.
C	(i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.
D	(i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years. 15
PI-4	Stock and monitoring of expenditure payment arrears
A	(i) The stock of arrears is low (i.e. is below 2% of total expenditure) (ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).
B	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years.

	(ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
C	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.
D	(i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5 Classification of the budget	
A	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)
B	(i) The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.
C	(i) The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.
D	(i) The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).
PI-6 Comprehensiveness of information included in budget documentation	
A	(i) recent budget documentation fulfils 7-9 of the 9 information benchmarks
B	(i) recent budget documentation fulfils 5-6 of the 9 information benchmarks
C	(i) recent budget documentation fulfils 3-4 of the 9 information benchmarks
D	(i) recent budget documentation fulfils 2 or less of the 9 information benchmarks
PI-7 Extent of unreported government operations	
A	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
B	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure. (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.
C	(i) The level of unreported extra-budgetary expenditure (other than donor funded

	projects) constitutes 5-10% of total expenditure. (ii) Complete income/expenditure information for all loan financed projects is included in fiscal reports.
D	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.
PI-8 Transparency of inter-governmental fiscal relations	
i) Transparency and objectivity in the horizontal allocation among SN governments	**Score = A**: The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems **Score = B**: The horizontal allocation of most transfers from central government (at least 50% of transfers) is determined by transparent and rules based systems. **Score = C**: The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems. **Score = D**: No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems.
(ii) Timeliness of reliable information to SN governments on their allocations	**Score = A**: SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. **Score = B**: SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. **Score = C**: Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made. **Score = D**: Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.
iii) Extent of consolidation of fiscal data for general government according to sectoral categories	**Score = A**: Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. **Score = B**: Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year. **Score = C**: Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year. **Score = D**: Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.
PI-9 Oversight of aggregate fiscal risk from other public sector entities	
A	(i) All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually. (ii) SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.
B	(i) All major AGAs/PEs submit fiscal reports including audited accounts to central

	governments at least annually, and central government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, and central government consolidates overall fiscal risk into a report.
C	(i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.
D	(i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete. (ii) No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete.
PI-10 Public access to key fiscal information	
A	(i) the government makes available to the public 5-6 of the 6 listed types of information
B	(i) the government makes available to the public 3-4 of the 6 listed types of information
C	(i) the government makes available to the public 1-2 of the 6 listed types of information
D	(i) the government makes available to the public none of the 6 listed types of information
C. BUDGET CYCLE	
C i) Policy-Based Budgeting	
PI-11 Orderliness and participation in the annual budget process	
i) Existence of and adherence to a fixed budget calendar	**Score = A**: A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. **Score = B**: A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time, **Score = C**: An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely. **Score = D**: A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.Calificación = D: No se prepara un calendario presupuestario; éste en general no se cumple, O BIEN el plazo concedido para la preparación del presupuesto de los MDO es claramente insuficiente para que éstos puedan presentar documentos útiles.
ii) Guidance on the preparation of budget submissions	**Score = A**: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs. **Score = B**: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after

	the circular distribution to MDAs, but before MDAs have completed their submission. **Score = C**: A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments. **Score = D**: A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.
iii) Timely budget approval by the legislature	**Score = A**: The legislature has, during the last three years, approved the budget before the start of the fiscal year. **Score = B**: The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years. **Score = C**: The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year. **Score = D**: The budget has been approved with more than two months delay in two of the last three years.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	
i) Multi-year fiscal forecasts and functional allocations	**Score = A**: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained **Score = B**: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained. **Score = C**: Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis. **Score = D**: No forward estimates of fiscal aggregates are undertaken
ii) Scope and frequency of debt sustainability analysis	**Score = A**: DSA for external and domestic debt is undertaken annually. **Score = B**: DSA for external and domestic debt is undertaken at least once during the last three years. **Score = C**: A DSA for at least for external debt undertaken once during last three years. **Score = D**: No DSA has been undertaken in the last three years
iii) Existence of costed sector strategies	**Score = A**: Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. **Score = B**: Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure. **Score = C**: Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts. **Score = D**: Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.
iv) Linkages between investment budgets and forward expenditure	**Score = A**: Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.

estimates	**Score = B**: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. **Score = C**: Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases. **Score = D**: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.
C ii) Predictability and Control in Budget Execution	
PI-13 Transparency of taxpayer obligations and liabilities	
i) Clarity and comprehensiveness of tax liabilities	**Score = A**: Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. **Score = B**: Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved. **Score = C**: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved. **Score = D**: Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.
ii) Taxpayers' access to information on tax liabilities and administrative procedures	**Score A**: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns. **Score = B**: Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. **Score = C**: Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date. **Score = D**: Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.
iii) Existence and functioning of a tax appeals mechanism	**Score A**: A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon. **Score = B**: A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.. **Score = C**: A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective. **Score = D**: No functioning tax appeals system has been established
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	
i) Controls in the taxpayer registration system.	**Score = A**: Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations. **Score = B**: Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. **Score = C**: Taxpayers are registered in database systems for individual taxes, which

	may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers. **Score = D**: Taxpayer registration is not subject to any effective controls or enforcement systems
ii) Effectiveness of penalties for non-compliance with registration and tax declaration	**Score = A**: Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. **Score = B**: Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration. **Score = C**: Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance. **Score = D**: Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).
iii) Planning and monitoring of tax audit programs	**Score A**: Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment. **Score = B**: Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. **Score = C**: There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. **Score = D**: Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.
PI-15 Effectiveness in collection of tax payments	
A	(i) The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
B	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant. (ii) Revenue collections are transferred to the Treasury at least weekly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
C	(i) The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant (ii) Revenue collections are transferred to the Treasury at least monthly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
D	(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). (ii) Revenue collections are transferred to the Treasury less regularly than monthly (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.
PI-16 Predictability in the availability of funds for commitment of expenditures	

A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. (ii) MDAs' are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
B	(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows. (ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. (ii) MDAs are provided reliable information for one or two months in advance. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.
D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality. (ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment. (iii) Significant in-year budget adjustments are frequent and not done in a transparent manner.
PI-17 Recording and management of cash balances, debt and guarantees	
i) Quality of debt data recording and reporting	**Score = A**: Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly **Score = B**: Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually. **Score = C**: Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content. **Score = D**: Debt data records are incomplete and inaccurate to a significant degree.
ii) Extent of consolidation of the government's cash balances	**Score = A**: All cash balances are calculated daily and consolidated. **Score = B**: Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. **Score = C**: Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances **Score = D**: Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.
iii) Systems for contracting loans and issuance of guarantees	**Score = A**: Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. **Score = B**: Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.

	Score = C: Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings. **Score = D**: Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.
PI-18 Effectiveness of payroll controls	
A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). (iii) Authority to change records and payroll is restricted and results in an audit trail. (iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
B	(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. (ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally. (iii) Authority and basis for changes to personnel records and the payroll are clear. (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).
C	(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months. (ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments. (iii) Controls exist, but are not adequate to ensure full integrity of data. (iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.
D	(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. (ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments. (iii) Controls of changes to records are deficient and facilitate payment errors. (iv) No payroll audits have been undertaken within the last three years.
PI-19 Competition, value for money and controls in procurement	
i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	**Score = A**: Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition. **Score = B**: Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate. **Score = C**: Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate. **Score = D**: Insufficient data exists to assess the method used to award public

	contracts OR the available data indicates that use of open competition is limited.
ii) Justification for use of less competitive procurement methods	**Score = A**: Other less competitive methods when used are justified in accordance with clear regulatory requirements. **Score = B**: Other less competitive methods when used are justified in accordance with regulatory requirements. **Score = C**: Justification for use of less competitive methods is weak or missing. **Score = D**: Regulatory requirements do not clearly establish open competition as the preferred method of procurement.
iii) Existence and operation of a procurement complaints mechanism	**Score = A**: A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny. **Score = B**: A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority. **Score = C**: A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints. **Score = D**: No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.
PI-20 Effectiveness of internal controls for non-salary expenditure	
A	(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood. (iii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
B	(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception. (ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.
C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. (ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. (iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

D	(i) Commitment control systems are generally lacking OR they are routinely violated. (ii) Clear, comprehensive control rules/procedures are lacking in other important areas. (iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.
PI-21 Effectiveness of internal audit	
A	(i) Internal audit is operational for all central government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI. (iii) Action by management on internal audit findings is prompt and comprehensive across central government entities.
B	(i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI. (iii) Prompt and comprehensive action is taken by many (but not all) managers.
C	(i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards. (ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI. (iii) A fair degree of action taken by many managers on major issues but often with delay
D	(i) There is little or no internal audit focused on systems monitoring. (ii) Reports are either non-existent or very irregular. (iii) Internal audit recommendations are usually ignored (with few exceptions).
C iii) Accounting, Recording and Reporting	
PI-22 Timeliness and regularity of accounts reconciliation	
i) Regularity of bank reconciliations	**Score = A**: Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. **Score = B**: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month. **Score = C**: Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter. **Score = D**: Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.
ii) Regularity of	**Score = A**: Reconciliation and clearance of suspense accounts and advances take

reconciliation and clearance of suspense accounts and advances	place at least quarterly, within a month from end of period and with few balances brought forward. **Score = B**: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward. **Score = C**: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward. **Score = D**: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.
PI-23 Availability of information on resources received by service delivery units	
A	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
B	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
C	(i) Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.
D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.
PI-24 Quality and timeliness of in-year budget reports	
A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. (iii) There are no material concerns regarding data accuracy.
B	(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter. (iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.
C	(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter.

	(iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
D	(i) Comparison to the budget may not be possible across all main administrative headings. (ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay. (iii) Data is too inaccurate to be of any real use.
PI-25 Quality and timeliness of annual financial statements	
A	(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied for all statements.
B	(i) A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities (ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied.
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.
D	(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit. (ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year (iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.
C iv) External Scrutiny and Audit	
PI-26 Scope, nature and follow-up of external audit	
A	(i) All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit

	office. (iii) There is clear evidence of effective and timely follow up.
B	(i) Central government entities representing at least 75% of total expenditures12 are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.
C	(i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. (ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.
D	(i) Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues. (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) There is little evidence of response or follow up.
PI-27 Legislative scrutiny of the annual budget law	
A	(i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. (iii) The legislature has at least two months to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
B	(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. (ii) Simple procedures exist for the legislature's budget review and are respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
C	(i) The legislature's review covers details of expenditure and revenue, but only at a

	stage where detailed proposals have been finalized. (ii) Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	(i) The legislature's review is non-existent or extremely limited, OR there is no functioning legislature. (ii) Procedures for the legislature's review are non-existent or not respected. (iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month). (iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected.
PI-28 Legislative scrutiny of external audit reports	
A	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
B	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion. (iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
C	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. (iii) Actions are recommended, but are rarely acted upon by the executive.
D	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. (ii) No in-depth hearings are conducted by the legislature. (iii) No recommendations are being issued by the legislature.
D. DONOR PRACTICES	
D-1 Predictability of Direct Budget Support	
A	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%.

	(ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
B	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
C	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.
D	(i) In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by the donor agencies. (ii) The requirements for score C (or higher) are not met.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	
A	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
B	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.
C	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification. (ii) Donors provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.
D	(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its

	start. (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.
D-3	**Proportion of aid that is managed by use of national procedures**
A	(i) 90% or more of aid funds to central government are managed through national procedures.
B	(i) 75% or more of aid funds to central government are managed through national procedures.
C	(i) 50% or more of aid funds to central government are managed through national procedures.
D	(i) Less than 50% of aid funds to central government are managed through national procedures.

Annex 7. Participants in the Field Mission

Name	Institution	Title
Karin von Lundwust Morano	ABC	Budget Manager
David Augusto Solís Rubín de Celis	ABC	External Financing Officer
Gregorio Salazar	ABC	External Financing Manager
María Peñaranda	ABC	Administration and Finance Manager
Luis Fernando Escobar Patiño	Central Bank of Bolivia	Fiscal and Monetary Sector Manager
Teresa Vera	Central Bank of Bolivia	Fiscal and Monetary Sector Assistant Manager
Juan Carlos Escobar	Central Bank of Bolivia	Professional
Tatiana Quiroga Morales	Central Bank of Bolivia	Balance of Payments and External Sector Manager
Raúl Mendoza	Central Bank of Bolivia	Advisor
Freddy Gumiel	Central Bank of Bolivia	External Sector Assistant Manager
Oscar Ferrufino Morro	MEFP	National General Treasury Operation Unit Manager
Álvaro Orozco Salas	MEFP	Manager of Financial Programming Unit
Franz Crespo	MEFP	Salary and Administration Information Unit Manager
Moisés Blanco	MEFP	Salary and Administration Information Unit Manager
Andrés Ramos	MEFP	State-Owned Enterprises Unit Manager
Willy Chura	MEFP	Plurinational State and Decentralized Entities Organization Unit
Magali Churruarrín	MEFP	General Director of Budget Programming and Management
Humberto Arandia	MEFP	Public Debt Sustainability Unit
Teresa Mariaca	MEFP	Public Debt Sustainability Unit
Humberto Fernández	MEFP	Public Debt Operation Unit
Juana Jiménez	MEFP	General Director of Public Credit
Gonzalo Callisaya	MEFP	General Director of Fiscal Accounting
Roberto Ugarte	MEFP	Deputy Minister of Tax Policy
Marcelo Eguino	MEFP	General Director of Tax Information Management Systems
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Nelson Bellot	FPS	Agreements Management Officer
Jaime Zeballos	FPS	Internal Auditor
Ramiro Quiroga	Finance Committee– Chamber of Deputies	Technical Secretary
Robny Clavijo Ponce	Ministry of Rural Development and Land	Legal Auditor
Maritza Sandoval	Ministry of Rural Development and Land	Internal Audit Unit Manager
Luis Cuentas	Ministry of Rural Development and Land	Budget Manager
Julio Rojas	Ministry of Rural Development and Land	Accounting Manager
Eileen Salamanca	Ministry of Rural Development and Land	Finance Unit Manager
Carlos Pizarrozo	Ministry of Rural Development and Land	Consultant
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Elvia Villena Romero	Ministry of Public Works	Planning Director
Gualberto Reque Romero	Ministry of Public Works	General Director of Civil Aeronautics
Luis Freddy Pary	Ministry of Public Works	
José Lino Gemio	Ministry of Public Works	
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Mercedes Achá Arauco	Ministry of Public Works	
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Frank Quintana	Ministry of Public Works	Finance Manager
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Javier Villarroel Romero	Prefecture of La Paz	
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Jose Luis Valencia	Chamber of Commerce	
Andrés Torres	Confederation of Private Businessmen of Bolivia	

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