

**BOLIVIA:**  
**TRACKING POVERTY RELATED SPENDING IN**  
**HEAVILY INDEBTED POOR COUNTRIES (HIPC)**

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## Abbreviations and Acronyms

AAP	Assessment and Action Plan
CAF	Corporación Andina de Fomento
CGR	Controller General of the Republic
CFAA	Country Financial Accountability Assessment
DUF	Directorio Único de Fondos
FNDR	National Regional Development Fund
FPS	Productive Social Investment Fund
GFS	Government Finance Statistics
HIPC	Heavily Indebted Poor Countries
IDB	International Development Bank
IMF	International Monetary Fund
IRP	Institutional Reform Project
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
OTB	Organización Territorial de Base
PAI	Plan de Ajuste Institucional
PDM	Municipal Development Plan
PEM	Public Expenditure Management
POA	Annual Operating Program
PRF	Plan Municipal de Readecuación Financiera
PRPE	Poverty Reducing Public Expenditures
PRSP	Poverty Reduction Strategy Paper
RFM	Monthly Financial Survey
SAFCO	Financial Administration and Control System
SIEF	Economic and Financial Information System
SIGMA	Financial Management Information System
SINCOM	Integrated System of Municipal Accounting
SISIN	Public Investment Database
TGN	National Treasury
UPF	Fiscal Programming Unit
VIPFE	Vice Ministry of Public Investment and External Financing
YPFB	Yacimientos Petrolíferos Fiscales Bolivianos

## **BOLIVIA**

### **TRACKING POVERTY RELATED SPENDING IN HIPC<sup>1</sup>**

#### **INTRODUCTION**

A joint Bank/Fund mission worked in La Paz from October 9-16, 2001, with a view to revise the preliminary HIPC assessment and to draft a medium-term outline action plan to upgrade Bolivia's capacity to track poverty reducing public expenditures (PRPE).

A preliminary report on the desk assessment of the country's capacity to track PRPE was prepared in November 2000. Preliminary findings confirmed that although Bolivia has shown substantive progress in monitoring public expenditures during the last decade, serious deficiencies –lack of flexibility, timely information, transparency and, accountability- persist, especially, at the sub-national level of the Government (municipalities and prefectures). In the case of Bolivia, this is of a particular relevance given that all anticipated additional spending on poverty related activities due to HIPC debt relief are expected to be undertaken by municipal Governments.

This revised Assessment and Action Plan (AAP) assesses the capacity of the public expenditure management (PEM) in general, and poverty reducing expenditures in particular, and recommends actions that are needed to improve the capacity to monitor poverty-reducing expenditures. The draft AAP is organized as follows: Section A presents an assessment on Bolivia's Budget Systems. This joint assessment prepared by the team and the authorities relative to specific benchmarks in the areas of budget preparation, execution and reporting is based on the answers to the questionnaire provided by the authorities (see Annex IV). Section B presents a summary of the poverty-related expenditure tracking capacity providing an assessment of the formal and informal means for tracking poverty-related expenditure currently available in Bolivia. Section C presents a broad description of the bridging mechanism to track poverty-reducing expenditures which is currently used until a formal system for this purpose (SIGMA) is put in place. Section D reviews the ongoing and planned technical assistance in PEM activities, specifically relevant projects underway and/or in preparation by the Bank, the Fund and other donors. Section E identifies existing gaps and proposes a three-year action plan to improve public expenditure management capacity at the central and local levels of Government. Section F concludes.

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<sup>1</sup> This report was prepared by Carlos Mollinedo-Trujillo (LCSPE), Paul Sisk (LCOAA), and Marcelo Ochoa (LCCBO). Gerardo Peraza (IMF Resident Representative) assisted the mission.

## **A. REVISED COUNTRY ASSESSMENT**

### ***I. INVOLVEMENT OF DIFFERENT LEVELS OF GOVERNMENT***

As a result of the transfer of productive activities to the private sector during the 1990s, as well as of the recent deepening of the decentralization process, the Bolivian public sector has undergone a drastic redefinition of its role. The budget structure, initially designed for a centralized/productive state, has yet to be fully adapted to these changes. Yet, despite the shortcomings found in the budget process and institutions (at different levels of Government), a non-trivial accomplishment is that Bolivia has an effective control of the overall fiscal balance. This has been achieved through a strict and ongoing control of the Treasury's cash flow. To meet fiscal targets the Ministry of Finance (MOF) uses monthly cash programs and line item payment approvals. Any cash overrun by one public entity implies the same amount of cash tightening in another. While effective in meeting its aggregate fiscal targets, the MOF has extremely limited knowledge of, and thus inadequate control over, how exactly funds are being spent during the fiscal year.

Currently, about 50 percent of public poverty related spending is undertaken at sub-national levels of Government. Half of the total public investment is channeled through municipalities and their importance will increase in the near future. Their role is to be expanded to provide all public education and health care in the long run. In the short run municipalities will be benefiting from additional resources related to the HIPC debt relief initiative and the implementation of the co-financing policy as delineated in the National Dialogue Law (see Annex I for a more detailed explanation). Yet, although municipalities will receive a large increase in resources available for local investments, a significant part of the poverty reduction effort will remain with the Central Government, at least for the short to medium term. This includes the assignment of part of the enhanced HIPC initiative resources (see Annex I). Moreover, about 50 percent of total public expenditures are currently spent through the Treasury.

The remainder of this assessment will discuss both local and Central Government capacity to track poverty related spending.

### ***II. BUDGET FORMULATION***

#### **1. Comprehensiveness**

***Benchmark:*** *Budget reporting follows GFS definition of consolidated General Government*

The budgetary information provided fits closely the IMF's Manual of Government Finance Statistics (GFS) definition of consolidated General Government. The classification used is an economic classification capable of identifying overall cash flow accounts. A budget document covering the entire public sector is published every year. Budget coverage on expenditures and revenues from municipalities and universities is

limited to inter-governmental transfers from the Central Government. Own-source revenues and their related expenditures are not registered. Other decentralized agencies, not included in the Central Government but part of the General Government, register all their operations in the budget and are required to periodically submit information. Yet expenditure allocations are not effectively monitored (in average there is a one month lag in the submission of information). After the implementation of the financial management information system (SIGMA) scheduled for 2002 all transactions of the decentralized institutions should be covered and the information on their activity made readily available.

***Benchmark:*** *Government activities are not funded through extra budgetary or off-budget sources.*

Extra budgetary expenditures are not permitted. However, the “*Notas de Débito*”, as an extraordinary fast payment mechanism to reallocate budgeted expenditure, are frequently used. This prevalent practice had diminished in recent years, yet during 2000 these notes enabled the payment of the costs of social unrest and emergency adjustments stemmed from the introduction of the new SIGMA system. About 500 notes were issued within the Central Administration only (amounting to about one-percent of GDP in 2000). Some Central Government entities (e.g., Internal Affairs and the Police) do raise non-registered administrative fees and service charges, yet these extra-budgetary resources have to be reported at the end of the fiscal year.

***Benchmark:*** *Budget outturn data is quite close to the original budget.*

All public entities tend to overstate capital expenditures and over-estimate revenues in the budget. This is part of the bargaining strategy used at all levels of Government. The original budget is not being used as an effective tool for integrating development plans and policies, but rather for defining budget envelopes for each agency. Under normal circumstances no agency can exceed its expenditure ceiling as defined in the original budget. As a result, outturn is generally much less than budgeted and cash rationing is the feature of the system. During the year there is an acute shortage of resources to cover budgeted expenditures, but the Treasury manages to meet aggregate deficit targets through re-allocations within ministries. There are no clear specific rules to be applied for managing cash rationing. In general allocations are determined by the political bargaining power of each agency. The Treasury decides re-allocations of current expenditures, whereas public investment decisions are competence of the Vice Ministry of Public Investment and External Financing (VIPFE). When actual revenues are lower than planned, the budget is adjusted through a reduction of the expenditure execution. The uncertainties concerning budget ceilings ensuing from this system produces operative inefficiencies over commitments and short-term planning horizons.

The original budget is formally modified once over the year with Congress participation . The objectives of the modified budget is to: (i) Formalize transfers made without

authorization. (ii) Formalize transfers authorized by the MOF outside the budget law. (iii) Formalize additional budget appropriations authorized by the MOF, which are required prior authorization by Congress. (iv) Adjust (increase) ceilings of agencies that have under estimated their revenues. Supplementary revenues may arise, for example because, of unexpected privatization receipts. In 2000 most of the amendments made were due to YPF's (state oil company) late privatization.

Other in-year expenditure re-allocations within line agencies are regularized almost immediately. This procedure is called, reversion, which can be done at any time during the year. Under this procedure, the agency changes the information introduced to the system after having used the funds for purposes different from what was originally intended. Recently, some restrictions have been put in place by the MOF to limit reversion operations.

At the end of the fiscal year the Government issues a Supreme Decree that regularizes the remaining pending cases. During this process, funds are transferred from budget categories with positive balances to those that have negative balances and additional spending carried out by agencies with their own resources are finally registered. In this way, public information on the executed budget does not show overdrafts.

***Benchmark: Budget includes capital and current expenditure financed by donors***

In general all grants and concessional credits are included in the budget and in the actual outturn and the Government keeps track of external inflows. If over the year a public agency obtains new external resources, this agency can increase its ceiling and get national resources as counterpart from the Treasury without requiring congressional approval, simply through budget modification.<sup>2</sup> Whenever a credit/donation which benefits several public entities is recorded in VIPFE, fiscal authorities distribute these resources manually.

At the municipal level direct donations from cooperation agencies are sometimes not registered. In general the monitoring of municipal expenditure by the Central Government is limited. As an example, municipal regulations establish rules for the allocation of municipal expenditures: 15 percent of the resources are for current expenditure and 85 percent for investment. Yet their application is not monitored, therefore ineffective.

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<sup>2</sup> A similar procedure is applied in case of higher royalties that budgeted.

## 2. Classification

**Benchmark:** *Budget is classified on an administrative, economic and functional basis.*

The current budget comprises administrative, economic sector and programmatic classifications. Within the programmatic classifications the specific activities and projects are budgeted. Functional classifications to relate the uses of funds to the ends sought by the public sector are not made in the budget for 2002, consequently there is no capacity to track poverty related expenditures on the structure provided in the Bolivian Poverty Reduction Strategy Paper (PRSP).

Under Financial Administration and Control System (SAFCO) norms, all agencies are required to present annual work programs using the program concept – *Planes Operativos Anuales* (POA) – which together form the budget submitted to Congress. In reality there are weak links between programs and outputs. Rather they are merely an extensive desegregation of budgetary line items based on the previous year's budget.

**Benchmark:** *Poverty-reducing expenditures are clearly identified in the budget*

There is no “tagging” of poverty-related expenditures in the budget. Currently, poverty-reducing expenditures are tracked only through a unique bridging-mechanism (see Section C). The Government relies on the emergency unit, Fiscal Programming Unit (UPF), with limited but significant coverage, to provide estimates on poverty reducing expenditure divided into two major categories: current expenditures and social investment. Poverty reducing expenditures are identified as follows: (i) Ministry of Education budget (spending on universities not included); (ii) Ministry of Health budget (spending on veterans' pensions not included); (iii) expenditure on basic sanitation; (iv) urban and rural development expenditure; (v) other social spending by prefectures. There is no detail on function, program or project nor it is possible to identify expenditure by very general function—e.g. primary education or primary healthcare. Ministries could provide such information, but the Treasury does not routinely collect it and it is not produced on a timely basis. The process of estimating poverty-related expenditures is based on data from different sources.

It is virtually impossible to identify the allocation of the Original HIPC resources with the actual classification. These resources are distributed through a “virtual” fund, which disables the Government to track its final use. Original HIPC funds appear as a source of funding in the budget. Since these are not segregated in the recording of the expenditures they finance, there is no specific tracking of them. Use of the funds in poverty reduction activities is inferred from the monitoring of Programmed Actions in the social sector such as the increase in expenditure in social public expenditures, improvement in the coverage of basic education in rural areas, increase in the number of children that complete primary education, etc.

Although there will be no poverty fund, Enhanced HIPC resources will be monitored by placing them into two accounts in the Central Bank. The amount transferred to each municipality will be available, and expenditures will be monitored by relying on quarterly municipal reports. These resources are identified by the source (Enhanced HIPC) both in the budget and in budget execution reporting. The goal is to report on each project that is financed in whole or in part by Enhanced-HIPC resources.

### 3. Multiyear Projections

***Benchmark:*** *Multi-year expenditure projections are integrated into the budget cycle.*

There is no Medium-Term Expenditure Framework (MTEF) in Bolivia, mainly because almost no policy planning has a time-horizon of over one-year. While multi-year projections were done as part of the exercise for producing the medium term framework for the PRSP, this has not yet been integrated into the budget process. According to fiscal authorities, better planning enabling to produce an MTEF is a key Government priority.

***Benchmark:*** *Small stock of expenditure arrears, little accumulation of arrears over the past year.*

Arrears over the past year defined as the difference between accrued and paid expenditures will be better measured after the implementation of the new accounting system (SIGMA). In the Central Government arrears are small and vary within a range of US\$ (+/-) 10 million. At sub-national levels, arrears are more significant. This is partly due to limitations on data recollection and processing. Recollection delays (approximately a 2-month lag) affect revenues as well as expenditures. Non recorded revenues are lost for the present administration and assigned to finance following year's expenditures.

Floating debt defined as the difference between committed and paid expenditures are a problem at all Government levels. In the Central Administration only, floating debt reached in 2000 about US \$ 100 million (over 1 percent of GDP). It is estimated that for the Central Government the share of the floating debt to the total budget reaches about 2.5 percent. At the municipal level, the degree of severity of the problem varies considerably. Even among the municipalities that do not have arrears to the private sector, several have arrears to the National Regional Development Fund (FNDR) and other parts of government. Some small municipalities have already reached significant amounts of floating debt. And yet for big municipalities estimations are even higher: an external audit reports that payments in arrears (floating debt) of the three largest Municipal Governments only – La Paz, Cochabamba and Santa Cruz- reached Bs. 137 million in 1999. This situation has spawned concern among the Government which is trying to provide solutions through the PRFs (municipal rationalization program).

### **III. BUDGET EXECUTION**

#### **1. Internal Control**

**Benchmark:** *Internal audit is active*

All the spending units have internal audits departments. Though active these are not considered effective since much of their work is directed by the needs of the Controller General of the Republic (CGR) which has been ineffectual in contributing to the prosecution for malfeasance and does not arrive at opinions on the Central Government's budget or financial statements.

At the local level, Bolivia has created an alternative form of social oversight to monitor the implementation of municipal investment projects, the so called "*Comités de Vigilancia*". Complaints by these social Vigilance Committees can be used to stop transfers for a project that is not being handled correctly. Currently these committees do not perform effective supervision, but as part of the poverty reduction strategy, they will be strengthened and given broader power to intervene in policy-making decisions and to monitor the regional and national levels of Government.

#### **2. In year Tracking of Expenditures**

**Benchmark:** *Tracking surveys supplement internal control*

There is no tracking through surveys of Central Government expenditure at present. Timely information is currently available for aggregate spending only.

At the local level, tracking surveys are sporadically conducted through Vigilance Committees. However, those are not qualified for this assignment. In particular, Vigilance Committees do not audit budgetary execution accounts to verify the reliability of budgetary information. They only ensure that the Mayor is carrying out his previous commitments. This limited role is mainly due to lack of resources for financing their main activities, however, recent regulation established a Social Control Fund (*Fondo de Control Social*). This fund will finance the Vigilance Committees expenses related to their functions. It may also be used for training their members. This would enhance the capacity of the existing Vigilance Committees.

**Benchmark:** *Fiscal and banking reconciliation is undertaken routinely*

At the Central Government level a daily reconciliation is undertaken. For all of the Central Government the checks that the integrated financial management system apply to all expenditures include determining budget availability and authorized cash availability within the cash programs authorized by Treasury.

Local Governments, however, have problems in their reporting but this will change with the implementation of the SIGMA. This new management system requires a daily conciliation of accounts at all Governments levels.

#### ***IV. BUDGET REPORTING***

##### **1. Regularity of Reports**

***Benchmark:*** *Internal budget reports from line ministries received within four weeks of the end of the relevant period*

SIGMA permits timely information on spending by the Central Government agencies. The formal accounts of the municipalities, on the other hand, are prepared only at the close of the year so effective budget control is not possible. Municipal accounting systems are weak so that reporting to Central Government is not always accurate. For example, in 1998, the budget document for the public sector projected a surplus for municipalities and outturn showed a surplus, but in truth, there was a large increase in municipal debt that year (equal to Bs. 312.5 million). This information was only discovered after an external audit company reviewed the municipal accounts for the 10 largest cities.

The only timely and reliable information on the municipalities is prepared by the UPF which collects data on 111 largest municipalities. Quarterly information is required to monitor the public sector deficit, but UPF cannot provide municipal Government budget execution data—it is too difficult for UPF to put together and reconcile this information. According to the MEFP municipalities will be given quarterly reporting requirements as a condition for receiving HIPC.

The Unit of the Financial Decentralization Project in the Ministry of Finance is planning the development of 3 different versions of SIGMA, a separate version for large, medium and small municipalities. The Government's target is to implement SIGMA in 91 municipalities by 2005.

***Benchmark:*** *Functional classification is reflected in the in-year budget reports*

A functional classification will be available for in-year reports on Central Government and decentralized entities including the funds flowing from the *Directorio Unico de Fondos* (DUF) to local Governments. A functional classification for in-year reporting may be available for some municipalities, but not for most municipalities. In the medium term, implementation of a scaled down financial management system in many municipalities will make it possible to produce in-year reports with a functional classification.

***Benchmark:*** Closure of the accounts occurs within two months after the end of the fiscal year

The books are closed by March 31<sup>st</sup> which is three months after the end of the fiscal year. There is no systematic follow-up of physical and financial executions, as only 10 percent of public entities submit information the Accountant's General Office on time. Agencies are seldom sanctioned for not submitting information on time (agencies' fiscal accounts could be frozen, transfer of Treasury funds could be suspended and requests for additional budget could be denied). The Congress can freeze transfers from the Treasury to Municipalities when faulty management in the Municipality can be proved.

***Benchmark:*** Audited accounts presented to the legislature within six months of the end of the fiscal year.

The final accounts are submitted to the General Controller acting as an external auditor. The Congress receives the final budget figures within six months of the end of the fiscal year, however, they are not reported on by the Controller.

## **V. BUDGET EVALUATION**

For evaluating the public expenditure impact, on an aggregate basis, certain poverty indicators are tracked, and standard of living surveys are used for this purpose. However, the DUF normally prepares impact assessments of specific projects due to the donors' requirements for financing projects.

For evaluating the original HIPC initiative, the Government carried out a monitoring of 16 key indicators. Among these, just expenditures on primary education involved the PRPE.

### **1. Capacity for Change**

The international cooperation has been supporting for over a decade the development of a budgeting and following up process of public expenditures; much of its effort has often failed, particularly due to lack of political will to carry out reforms. Yet over the last 2 to 3 years notable progress has been made, and the public administration has put budget reform and public expenditure management in its priority reform agenda. Government political will is still needed to complete the implementation of the SIGMA (including the introduction of the unique account). Still, there is more need of assistance. Certain topics for future assistance have been addressed (see Section E) including: (i) The implementation of a medium term expenditure scenario. (ii) The training of local teams involved in budget management. (iii) The institutionalization of local Governments. The lack of improvements in the budget formulation and reports of local Governments reflect the frequently change in key human resources. Some people who acquired some specialization and training are asked to leave when a new Administration arrives.

## **B . SUMMARY OF POVERTY-RELATED EXPENDITURE TRACKING CAPACITY**

Two means are available to the Bolivia public sector for poverty-related expenditure tracking: formal systems and informal systems. The formal systems comprise the double entry accounting records integrated with budget control mechanisms. The informal systems comprise the cash book controls implanted in the Prefectures and municipalities and supported by the UPF (see Section C, Bridging Mechanisms for Tracking Poverty-Related Expenditures). The formal systems in place for the Central Government and its autonomous entities comprise SIGMA and other systems in the entities which generate timely and reliable information on budget execution and the financial position. Enhanced HIPC sources and uses are specifically identified as a separate fund. The municipalities, on the other hand, may have integrated financial management systems but do not keep these up-to-date.

Poverty-related expenditure tracking in the Central Government is presently based on the formal accounts by adjusting social sector expenditures to the basis agreed by the multi-disciplinary group. Tracking for the municipalities, however, is based on the economic classifications of the cash reports coordinated by the UPF, this is now enhanced to separate the specific uses of Enhanced HIPC funds. The current expenditures from these reports are used in the aggregation of social spending. The capital expenditures, however, while reported in the cash flows are taken from the reports generated by the VIPFE through its public investment database (SISIN). This reporting provides adequate tracking of poverty-related expenditures in that it is comprehensive, timely and reliable at the level of the Central Government. SISIN data from municipalities give account only of municipal investments financed by the revenue sharing funds.

The shortcomings arise in that most poverty-related expenditures, incurred in the municipalities, flows from informal accounts. Annex II to this report describes the financial management capacity and practices of 4 municipalities. The outstanding characteristics of municipality financial management may be summarized as follows:

Budget preparation flows from the planned activities reflected in the POA and is built around the uniform public sector budget structure. The transfers reflect as income in the municipal budget are taken from the amounts advised by the Central Government and reflects as transfers in their budgets.

The recording and reporting against this budget as well as the financial accounting is the responsibility of each municipality. Most municipalities have installed some version of the integrated financial management system, the Integrated System of Municipal Accounting (SINCOM), which was developed by the Vice Ministry of Popular Participation. This system, however, allows budget overruns and is poorly supported so it is generally not applied for the management of the municipality.

In practice municipalities rely on the monthly cash flow statements, generated by the Monthly Financial Survey (RFM) software, supported by the UPF, for the day to day management of their affairs. The statutory monthly budget reporting and quarterly

financial reporting, generated in the formal systems of SINCOM, are in some cases not presented, and in most cases are presented late, with information that is incomplete and unreliable.

The integrated financial management system developed by the Ministry of Finance, SIGMA, will be 91 municipalities by 2005. This system will be closely supported and monitored by the project unit in Ministry of Finance and should achieve effective reporting through formal accounts. This implies that they do not lend themselves to independent verification through external audit. Another shortcoming is that poverty-related expenditure is, at present, based on the sector classification only, there is no provision for accumulating expenditure under the classifications of the PRSP. This can be accomplished easily in the formal accounts by assigning a functional designation to each classification within the PRSP. In the informal accounts, however, these classifications cannot be inferred from the economic classifications reported to the UPF. Poverty-related expenditure tracking will not be flexible or complete while it is not integrated in the formal accounts.

### C. BRIDGING MECHANISM FOR TRACKING POVERTY-RELATED EXPENDITURES

The bridging mechanisms for poverty-related expenditures comprise the segregation of Enhanced HIPC funds in dedicated bank accounts in each municipality and the reporting of uses by poverty-related category which is coordinated by the UPF. While the budget classifications do not flag poverty related expenditures as a separate group under any of its classifications (administrative, source, programmatic, activity/project, or object of expenditure) accumulations for the Central Government can be made from the sector classifications in the budget execution reports on the basis of agreements made between donors, multilaterals and multi-disciplinary group of the Government on the expenditures which qualify as poverty-related.

Since poverty related expenditures cut across the social sectors but do not include all the expenditures of the related sectors, the National Accounting Office (*Dirección General de la Contaduría General del Estado*) must prepare manually the report on poverty-related expenditures. This is performed by aggregating from the budget execution reports by reporting units the current expenditures which qualify as poverty-related (in effect the total of the social sector spending is used as a starting point and non-poverty expenses are deleted (e.g., universities) similarly transfers to sub-national Governments are subtracted so they will not be duplicated in the General Government sector consolidation). It is noted that both the source and use of all Enhanced HIPC funds are identified in the budget and execution as a separate funding source hence reports in the greatest detail may be prepared on the uses of these funds.

For capital expenditures VIPFE accumulates through SISIN the capital investment of all public investment projects. There is no flagging or classification as poverty-related in the system, as such, VIPFE prepares an analysis and compiles manually the cost of poverty-related projects and the poverty-related component of project not exclusively poverty-related. SISIN tracks both the Central Government projects as well as those of *Prefecturas* and municipalities which are financed by transfers from the Central Government. Investment financed by municipal generated resources are not controlled through *SISIN*.

This information is provided to the UPF, within the Ministry of Finance which was established to support the compilation of GFS on the General Government sector and the public sector. The Central Government reports on budget execution, adjusted to a Cash basis, are consolidated this with sub-national reporting.

The municipalities formal systems, comprising budget execution and financial accounting, are inadequately applied in that the information reported through these is prepared to comply with the National Accountancy requirements and are generally not supported by reconciliations and are without exception certified as unreliable by the CGR.

Because of this the UPF has installed a cash flow recording software, RFM, in all the *Prefecturas* and 111 municipalities of the 315 in the country. The reporting

municipalities comprise 90% of municipal expenditure, income and expense for the remaining 10% are inferred from this sample.

The *Prefecturas* and the municipalities must enter all the cash transactions in the RFM software, this movement is taken from the bank extracts, and hence it is not dependent on the state of the accounting or budget execution statements. The system produces a cash flow statement which details revenue by source and expense by object of expenditure designed to satisfy the GFS classifications.

For the Enhanced HIPC since the expenses are not classified by function, program or activity/project the UPF municipality cash flow statement is complemented with mandatory fields on the discrimination of Social Expenditure: Health, Education, Social Management, and Basic Sanitation. This breakdown may include projection of uses of advances made on projects of social investment. The UPF has issued instructions to their own staff for the detailed reporting of HIPC II resources by each municipality and have prepared formats for reporting cash flows of these funds specifically. This reporting is a subset of the total cash flow statement by municipality. It presents the movement for each of the 3 mandatory bank accounts employed for HIPC II funds.

The mechanisms established and coordinated by the UPF for cash flow reporting are based on the RFM software in which all income and expenses are recorded on a cash basis. The classification of these is effected by source of funding in the case of income and by object of expenditure in the case of expenses. At month end the expenses are further classified by sector.

The classification of income by source is facilitated by the use of separate accounts for major sources of income, co-participation, health 3 % of co-participation and local revenue at a minimum as well as HIPC. The bank movement is further corroborated by the documentary support originating in the outside parties. Lastly, the transfers from financiers, FPS, FNDR, VIPFE, TGN, PL480 etc. is reconciled by UPF to the income reported by the 111 municipalities reporting through RFM. Expenses are recorded in the RFM by the object of expenditure on the basis of the supporting documentation. In the month end run a further classification is made on each document, although not recorded in the record of each transaction, of the sector of the expenditure on the basis of a notation made on the document of the sector from the budget classification that the item will be charged to in the formal system. Further classification by function for example could be supported by a additional processing in the RFM by the same mechanism if the supporting documents reflected a functional classification relating to a budget which incorporated functional classifications.

The classification of expense, in the cash flow report, comprises current and capital expenditure from all sources. The capital expenses in each municipality, except those financed by own-source revenue, are also reported on an accrual basis to the SISIN. The Vice Ministry of Public Investment and External Financing reports capital investments for the entire public sector to UPF which uses this information, rather than that reported in the Cash statement for the aggregation in the Social Spending Reports

## D . TECHNICAL ASSISTANCE OPERATIONS IN PROGRESS AND PLANNED

A wide range of multilateral institutions and bilateral donors are active in providing assistance that will directly or indirectly enhance capacity to track poverty-reducing spending. Table 1 presents information on the main ongoing and planned technical assistance in capacity building in the area of public expenditure management relevant to the ability to track Government expenditures, including poverty-related spending.

**TABLE 1: BOLIVIA – LIST OF TECHNICAL AND DONOR ASSISTANCE OF PEM**

Donor/ Provider	Description of assistance by major project	Type 1/	Year
IDB/World Bank	Financial management information system (SIGMA)	F	2000
IDB	Local development program with fiscal responsibility	F	2000
IMF	Financing and municipal Governments indebtedness	T	1997
	Inter-governmental relationships—proposals to improve the use of resources and macroeconomic management	T	1998
	Fiscal decentralization and the control of municipal Governments debt	T	2000
CAF	Municipal adjustment plans ( <i>Plan de Readecuación Financiera, PRF</i> )	F	2000-01
The World Bank	Employment Programmatic Structural Adjustment Credit	F	2001
	Institutional and Governance Review	T	2000
	Decentralization Programmatic Structural Adjustment Credit	F	1999
	Institutional Reform Project	F	1998
	Public Expenditure Review	T	1999
	Financial management information system (SIGMA)	F	1998
GTZ	Municipal management and planning	T	1999
The Netherlands	Popular participation and administrative decentralization	T	1997

Note:

1/ T=Technical, and F= Financial.

The International Development Bank (IDB) has signed an agreement in March 2001 to support to the first phase of the Local Development Program of Fiscal Responsibility.

This project aims at assisting the Government in the strengthening of institutional and financial management of municipalities. In addition, it strives to finance social development programs at municipal level. Currently this agreement is going through the ratification process at Congress and should be implemented as soon as all pre-conditions are met. The proposed IDB project will implement a scaled down version of SIGMA in 91 municipalities including the 12 largest cities, 39 medium-size municipalities, and 40 smaller municipalities. This project will also upgrade communication systems between the Central Government and these municipalities, strengthen the capacity of the Central Government to provide technical assistance and support the new financial management system, and fortify the CGR. The project is expected to begin in early 2002 and take 3 and a half years for implementation.

The *Corporación Andina de Fomento* (CAF) has committed its financial support to the fiscal rationalization program (through the *Planes Municipales de Readecuación Financiera*).

The World Bank financed SIGMA, which should provide timely and accurate expenditure and financial information, after almost 11 years of failed attempts to be put in place, is now operative in all central government agencies. Currently, budget planning, accounting, cash-flow management, payments, small acquisitions, and personal management is being done online in an integrated fashion for the 16 ministries that comprise the Central Government. Furthermore, Central Government real-time expenditure and financial data are available via Internet. On the basis of the 1999 Country Financial Accountability Assessment (CFAA) the Government and the World Bank agreed on a financial improvement action plan, where SIGMA implementation throughout the centralized and decentralized public sector is one of the pillars. The World Bank is monitoring the implementation of the CFAA recommendations by including its different benchmarks as conditions of adjustment credits under preparation. According to the implementation Plan, the central government, all autonomous agencies such as the regulatory bodies and national services (i.e., Roads, Customs, Internal Revenues, and social funds) and the nine prefectures should be effectively using SIGMA by 2002.

The World Bank has recently granted financial support to promote the deepening of the decentralization process through a Programmatic Structural Adjustment Credit. Besides financing a set of reforms within municipalities and prefectures, the project intends to support the reform of the inter-governmental transfer system. As part of this, an impetus has been given to the development of accurate and timely municipal information as well as effective central oversight mechanisms. Late 2001, the World Bank committed to provide resources to support the economic reactivation plan, through another Programmatic Structural Adjustment Credit. Among the conditions of this credit is the promotion of transparency in the use of HIPC II funds by supporting the implementation of an auditable system to monitor the use of HIPC II funds. Another poverty alleviation adjustment credit for further supporting these efforts, called PRSC I, is planned for 2003. Furthermore, the World Bank and other bilateral donors have assisted the Government in the design of the Institutional Reform Project (IRP). This project focuses on developing a series of public sector reform measures, including the development of a Civil Service

Program (at national and sub-national levels). In 1999, the World Bank has carried out a study of public expenditures in Bolivia in which problems along with possible solutions for improving efficiency and impact have been identified. In the August 2000 Institutional and Governance Review (IGR) the Bolivian budget process was reviewed. The World Bank has planned another revision of Public Expenditures for 2003.

The GTZ has been providing support in the area of Planning and Participative Municipal Management since 1999. Through their project, officials of various institutional levels have been formed in participative planning, the objective having been to ameliorate planning tools and mechanisms contributing to the successful implementation of project with the active involvement of the target groups. During its second phase, the project has focused on training authorities at departmental and local levels in participative planning. The expected results are a growing involvement of local representatives and indigenous communities in the development of their municipality and in poverty reduction. Beginning in 2002, this project will become part of the Sectoral Program of Modernization of the State. The GTZ is also providing TA to the Decentralized Public Management and Fight Against Poverty (GEDEPO). This program intends to support the development of financial management, social control and monitoring at sub-national levels, among others.

For five years the Government of the Netherlands has been financially supporting the implementation of popular participation (municipal institutional strengthening).

## **E. ACTION PLAN TO UPGRADE PEM CAPACITY TO TRACK POVERTY RELATED EXPENDITURE**

Based on the assessment made and input from Government authorities, the mission has prepared a three-year action plan to improve the public expenditure management capacity at the national and sub-national levels of Government. This action plan also identifies gaps in the current plans for technical assistance of various donors. Following objectives have been defined as high priority:

1. **Develop a medium term-expenditure framework (MTEF).** The MTEF needs to include initial estimations of available resources in the medium term as well as cost estimates of the sustainability of the reforms undertaken by the Government. In the short term emphasis should be placed on developing coordination mechanisms.
2. Since the municipal governments will undertake the majority of the poverty reduction effort, priority should be given to improving municipal accounting, reporting standards and management systems:
  - a. **Implement SIGMA (including the unique account system) at national and sub-national level.** According to plan, the implementation of the SIGMA in the Central Government and Prefectures (including national services - SNC, SII, Customs, Development Funds and all 9 Prefectures) should be finalized by end of 2002. At local level the implementation of the system should start at the beginning of 2002 in the 10 larger municipalities and in 20 middle size ones. By 2005 a simplified version of the system should be operative in 39 medium municipalities and in 40 small ones.
  - b. Begin work in 2001 by creating a coordination committee to follow up on the EBRP implementation (Supreme Decree of December 2001), then **undertake other steps to obtain the 2003 budget with budgeted, executed and published fiscal expenditures according to PRSP categories.**
  - c. **Introduce standardized reporting requirements into municipal accounts** to simplify the monitoring of municipal expenditures.
  - d. **Take budget allocation decisions in light of POA and PDM criteria,** which will require the revision of POA's and PDM's formats and a broader publication/dissemination of their content. This in turn would mean reformatting those documents from the current thick volumes to more focused documents linking the agency's program objectives to its budgetary needs.

- e. **Deepen the intergovernmental transfer systems**, including the conditions enabling the implementation of PRF and PAI (*Planes de ajuste institucional*).
3. **High priority needs to be given to further developing short term bridging mechanisms that will be used in the interim**, until SIGMA is fully implemented:
    - a. Strengthen the UPF and the *Unidad de Presupuesto Municipal* to **ameliorate the process of information collection and processing at sub-national levels**.
    - b. The *Contaduría General* will support the **development of functional information on public expenditure at the Central Government**, including the creation of consistent historical series.
  4. Improve budget formulation (at all levels) to permit the subsequent introduction of results-oriented public sector management. This is required to make the budget a credible and binding document reflecting the Government's commitment to strategic resource allocations:
    - a. **Reduce the number of in year budget re-allocations**. To achieve this, the Government might consider **publicizing its inter-sectoral and sectoral policy priorities prior to preparing annual budgets** and demonstrating consistency between the actual budget and the announced policy priorities. These priorities have to be formulated after consultations with line agencies and key interest groups within sectors.
    - b. **Relax the quota system for commitments by shifting from a monthly to a quarterly quota system** (*cuotas de compromiso*), with a simultaneous introduction of compulsory accounting practices. Lengthening the period for limits on commitments will help improve the planning capacity of the line agencies.
    - c. **Introduce, initially on a pilot basis, limits of periodic financing**, *cuotas de pago* (weekly, daily or monthly) for line agencies. This would grant them greater managerial flexibility and improve predictability in resource flows that are consistent with the agreed ceilings without micromanagement by the Treasury.
  5. **The Government will expand its internal evaluation of its budgetary performance** to take account of the degree to which actual budget execution approximates the allocations in the approved budget. **This information would be made public** as a way of strengthening citizen oversight of public expenditure management.

6. **Strengthen internal and external audit.** Besides verifying the fulfillment of the required procedures, **ex-post control (internal and external) should begin to develop indicators to measure performance.**
7. **Strengthen social oversight groups,** and provide tools and training to enable them to better evaluate public investment projects.
8. **Enhance the municipal budget administration** through the extension of the institutional reform of the public sector to the local level (e.g. providing greater **stability of Government services at all levels**).

## F. CONCLUSION

The international cooperation has been actively supporting the development of PEM activities for over a decade; some of its effort has failed, particularly due to lack of political will to carry out reforms. Yet over the last 2 to 3 years notable progress has been made, and the public administration has put budget reform and public expenditure management in its priority reform agenda. Government political will is still needed to carry out the action plan.

The identified gaps are mainly in the strengthening of Central Government units (UPF and *Contaduría General*) in charge of information on municipal expenditure. Additionally, the report considers that some supply-driven general support to the institutional municipal development must be redirected to the development of basic activities of registry of budget and accounting information in municipalities.

The AAP can be summarized in the following actions:

### *Short term measures:*

- Initiate the development of a medium term-expenditure framework (MTEF).
- Conclude the implementation of the SIGMA in the Central Government including all decentralized Government institutions (nationals services - SNC, SII, Customs, Development Funds) and all 9 Prefectures.
- Begin the implementation of the SIGMA in 30 municipalities.
- Initiate the process of budgeting, executing and publishing fiscal expenditures according the PRSP categories, starting with 2003 Budget.
- Strengthen short term bridging mechanisms.
- Support the implementation of PAI and PRF programs.
- Initiate the identified reforms in budget formulation and budget execution.

### *Medium term measures:*

- Conclude the development of a medium term-expenditure framework (MTEF).
- Complete the implementation of the SIGMA in 91 municipalities.
- Finalize the process of budgeting, executing and publishing fiscal expenditures according the PRSP categories.
- Finalize the identified reforms in budget formulation and budget execution.
- Initiate the reforms in budget evaluation.
- Strengthen internal and external audit
- Strengthen municipal social oversight groups
- Include POAs and PDMs in budget formulation

**TABLE 2: ACTION PLAN SURVEY TO UPGRADE THE PEM CAPACITY TO TRACK POVERTY-RELATED EXPENDITURE**

		<i>Priority level (H, M, L)</i>	<i>Expected outcome(s)</i>	<i>Expected timetable</i>	<i>Identified donor/ TA provider (if known already)</i>
1.-	Development of a medium-term expenditure framework.	H	Provide the Government an strategic instrument for mid-term planning.	2002	The World bank and the Fund may assist in this issue.
2.-	SIGMA implementation throughout 91 municipal Governments (12 large, 39 medium and 39 small).	H	A highly accurate and timely reporting on expenditures.	Jan/2002- Jun/2005	The IDB is providing TA in this issue.
3.-	Budgeting, execution and reporting of expenses at all levels of the Government following the classification of poverty-related expenses established in the PRSP.	H	Identify the efforts taken over by the Government in accomplishing the PRSP goals of poverty reduction.	2002	The World bank and other donors are planning to support the addition of this feature to the new SIGMA.
4.-	Full implementation of SIGMA system in the Central Government, <i>Prefecturas</i> including all decentralized institutions of the Government (e.g., <i>superintendencias</i> , Customs, Roads Service)	H	A highly accurate and timely reporting on expenditures	2001-2003	The World Bank is providing TA through the ILACO project.
5.-	Raise of municipal accounting and reporting standards.	H	Ease of municipal Government expenditures monitoring.	2002	Government action in progress. As well, the Bank is supporting this issue through the PSAC.
6.-	Facilitate systematic incorporation of PDMs and POAs into budget allocation decisions.	M	Establishment of a link between agency's program objectives an its budgetary needs.	2003	The World Bank, IDB and GTZ.
7.-	Improvement in the inter-governmental transfers system.	M	Enhancement of financial management at the local level of the Government..	2001	The IDB is providing assistance through the PAI.
8.-	Establish bridging mechanism for tracking poverty-related expenditures.	H	A short-term mechanism to monitor the use of HIPC II resources intended to be use in poverty fighting.	2001	The UPF is covering this issue.
9.-	Strengthen internal and external audit developing a traditional financial control system and non-traditional measures for performance evaluation.	M	An active control over those who undertake the poverty reducing expenditures.	2003	The World Bank and IDB are willing to provide it.
10.-	Introduce reforms on budget formulation and execution.	M	Make of the budget a credible, biding document that reflects the Government's political commitment to strategic resource allocation.	2002	The World bank and the IMF are willing to provide it.

(Continued...)

**TABLE 2: ACTION PLAN SURVEY TO UPGRADE THE PEM CAPACITY TO TRACK POVERTY-RELATED EXPENDITURE**

		<i>Priority level (H, M, L)</i>	<i>Expected outcome(s)</i>	<i>Expected timetable</i>	<i>Identified donor/ TA provider (if known already)</i>
11.-	Publication of the Government's Inter.-sectoral and sectoral policy priorities in advance of preparing the annual budget.	M	A more realistic and binding budget with regard to both inter. and intra sectoral allocations.	2003-2004	Government's action to be undertaken..
12.-	Cashed management based on quarterly quotas with a simultaneous introduction of an obligations-based accounting practice at first to those agencies that meet the IRP criteria for operational decentralization.	H	Ease the cost of monitoring spending and permit the line agencies more managerial flexibility.	2003	The Government intends to undertake this reform.
13.-	Publication of the Government's budget execution evaluation .	M	Strengthening of citizen oversight of public expenditure management.	2003	This issue needs no TA and the Government is willing to undertake it.
14.-	Introduction of <i>cuotas de pago</i> .	M	Provide line agencies more managerial flexibility..	2003	No donor has been identified.
15.-	Enhance of social oversight groups.	H	A control system undertaken by the beneficiaries.	2002	The GTZ is providing assistance through the Decentralized Public Management and Fight Against Poverty program (GEDEPO).
16.-	Development of effective institutional mechanism .	H	A modern Government with <i>de-politization</i> of public sector budget management.	2001	The World Bank is providing TA thorough the IRP.

## **ANNEX I : NATIONAL DIALOGUE LAW – DISTRIBUTION OF ENHANCED HIPC RESOURCES**

The National Dialogue Law (promulgated on July 31<sup>st</sup> 2001) establishes the distribution of the enhanced HIPC initiative resources through the creation of two funds: the municipal solidarity fund and the special account dialogue 2000.

### *Municipal Solidarity Fund*

Of the total HIPC relief, US\$ 5 million this year and \$US 27 million each year for the next 15 years will be accrued to the Municipal Solidarity Fund for public health and primary and secondary education (*Fondo Solidario Municipal para la Educación Escolar y la Salud Pública*). This fund will support additional financing needs of Education (70%) and Health (30%) Ministries. This fund will finance the salaries of one thousand doctors, nine hundred nurses and two hundred professionals. Almost ten thousand new teachers will be hired. The hiring-process will take place under close surveillance by the civil society. The account “*Fondo Solidario Municipal*” has been opened at the Central Bank.

### *Special Account Dialogue 2000*

Once the Solidarity Fund resources are deposited, the rest will be accrued to an account in the Central Bank called the Special Account Dialogue 2000. 20% of total resources are intended to contribute to the maintenance and equipment of schools. These resources will be distributed to municipalities according to the number of children attending schools. 10% of the resources are meant to improve health services. The remainder (70%) will be transferred to the municipalities to finance programs of social and productive infrastructure (e.g., water and sanitation, irrigation, micro enterprise support). Funds will be distributed according to the size of the population of the municipalities and a poverty formula. The poverty formula weights the population of each municipality according to its level of poverty. Therefore, the poorest municipalities will receive most of these resources. Special Account Dialogue 2000 funds are transferred to municipalities through the banking system. Resources are periodically deposited into the bank accounts of each municipality in three national banks (*Banco Unión, Banco Nacional y Banco de Crédito*).

### **Distribution of Other Pro-Poor Financial Resources**

Besides those resources, the municipalities will be able to increase their available funds for local investments acquiring transfers from the Productive Social Investment Fund or acquiring credits through the National Regional Development Fund. Transfers from the Productive Social Investment Fund (FPS) will be distributed according to the pro-poor formula given in the National Dialogue Law. FPS transfers will be targeted to priority areas, as described in the poverty reduction strategy paper, including roads, rural infrastructure, basic sanitation, education and health. The transfers from the FPS will be project specific (projects are reviewed and accepted on merit) and transfers

disbursements will be based on conditionality and progress in project implementation. All projects financed by FPS have counterpart requirements. Municipalities are expected to use HIPC funds to finance this counterpart requirement. Hence, much of the HIPC resources will be spent on projects accepted and monitored by the FPS. Besides, the FPS will also provide technical assistance in project development and implementation as well as for meeting reporting requirements.

Credit from the FNDR will not be distributed according to any predetermined formula, but according to the viability of the projects proposed. Municipalities that receive a loan from the FNDR must sign an agreement (PRF's) to improve public expenditure management including an implementation of a scaled down version of the SIGMA system used by the Central Government.

## **ANNEX II: CASE STUDY: TRACKING POVERTY-RELATED EXPENDITURES IN FOUR MUNICIPALITIES**

This evaluation of social expenditure tracking is based on information provided by a sample of four municipalities: large (*La Paz*), middle (*Montero*) and small (*Tupiza* and *Viacha*). Each of them is at the same time representative of a different region of Bolivia. First general information about the sample municipalities is presented, then an evaluation of the design, execution and evaluation of the municipal budget is briefly discussed.

The *municipality of La Paz* is located in the department of La Paz. It reaches a population of 716'000 inhabitants (0.3% of whom in rural areas). The *municipality of Montero* is situated in the department of Santa Cruz, in the eastern part of the country, with a population of 100'000 inhabitants. As for the *municipality of Tupiza*, its location is in one of the poorest departments of the country, Potosí, and its demographic size 52'000 inhabitants. About half this population lives in rural areas. The *municipality of Viacha* has 55'000 inhabitants and belongs to the department of La Paz. The majority of its population is rural (65%).

### **A. BUDGET FORMULATION**

In principle, the municipal budget has to be designed in accordance with the so called Municipal Development Plan (*Plan de Desarrollo Municipal* or PDM) with a five year horizon, the POA and the specific needs of the municipality. The POA and the budget include those projects and necessities that have secured their financing sources. The framework for the design is the budget ceiling defined by the Ministry of Finance (fiscal co-participation) as well as a projection of the availability of own financial resources (tax and non-tax revenues).

A variety of financial administration systems are used by different municipalities, yet most of them employ the SINCOM for the registration of commitment levels and budget execution. Currently the municipal budget can be produced under two classifications: administrative and economic. The staggered implementation of a new accounting system (SIGMA) throughout Bolivia has been arranged and it will enable to obtain more in depth budgetary information at the administrative and functional level. It is expected that by end 2002 larger municipalities (12 in total) will be fully operative under the new modality, will middle range ones (40) will have to wait until end of 2004 and small ones (39) a till 2005.

Currently budget elaboration does not include a specific categorization that allowing the identification of expenses related to poverty reduction. Therefore the UPF requires municipal Governments to report current expenditures in health and education that are subsequently taken into account for the computation of the social expenditure at municipal level (see above Section C).

The *municipality of La Paz* makes use of the PDM as a reference only. Its categorization is in fact so broad that it does not provide the municipal Government with valuable

elements allowing medium term planning. Representatives of the civil society (through the Vigilance Committee) truly take an active role in the assignation of resources at the budget elaboration stage only, but do not play an active role at the administrative stage at all. The 2001 budget designing has categorized programs into three investment funds: the Service Fund, the Strategic Fund and the Social Demand Fund. Each and every one of them includes previously assigned programs. Resources allocated to each investment fund are therefore easily identified. Along the same lines a fund could be created to collect all the resources targeted at poverty reduction. Consequently the tracking and registering of poverty related resources would be automatic. As for the financial management, municipalities utilize the Financial Administration System (*Sistema de Administración Financiera* or SIAFIN). Yet the considerable quantity of proofs that needs to be exhibited generates an excess of documentation, and let not forget that most of the clerical work is done manually. The implementation of SIGMA is expected to correct this problem. Budget processing at municipal level is analogue to budget processing at the Central Government level: half through the administrative period an amended budget is produced, which needs to be approved by the Municipal Council. Over the fiscal year the budget can be modified to be adjusted to new expenditure needs, yet all modifications require the approval of the Municipal Council.

At the *municipality of Montero* the civil society takes fully part in the detection of the priority needs of the community. Each *Organización Territorial de Base* (OTB) is in charge of holding meetings in its own area to pinpoint its main requirements. A prioritized list of the needs of the population is submitted to the Municipality through the Vigilance Committees. The necessities of public schools and projects that have not been fully executed in the previous year, as well as suggestions of the Mayor are also taken into account. Based on this information Planning and Financing Units elaborate the PDM, the POA and the budget.

Being the *municipality of Tupiza* smaller, it collects information about the necessities of its rural and urban district in a centralized way. The approval of the budget is subject to the approval of the Vigilance Committee as well as of the Municipal Council. Dissimilarly to other municipality, the approved budget is fed into the Financial and Economic Information System (*Sistema de Información Económica y Financiera* or SIEF) developed by the Vice- ministry of Popular Participation.

At the *municipality of Viacha* the PDM has been dumped as it does not appear to fulfill the expectations and current requirements of the community. The current administration has set about to adapt the PDM to those specific expectations and requirements.

## **B. BUDGET EXECUTION**

The follow up and monitoring of the budget execution varies from municipality to municipality. All municipalities monthly submit information on the executed budget to its own Direction of Finance and most of them accounts three times a year to the Municipal Council and the Mayor. Only the final report at the end of the fiscal year is submitted to the Ministry of Finance. All the information related to the execution of income and

expenditures is fed to the SINCOM. This system generates reports on the financial statement, cash flows and the consolidated and desegregated budget execution. Yet this system enables extra-budgetary expenses; consequently it is applied for budget registry and not for the following-up on the budget execution. This and the low level of monitoring have brought municipalities to accumulate high levels of floating debt. And usually a high level of floating debt is an indicator of corruption.

Nevertheless in several municipalities information on the budget cannot be introduced into the SINCOM as the Vice-ministry of Popular Participation has not yet installed in each of the latest version of it. Similarly it must be used by trained professionals and not too seldom municipalities have become dependent on external help proficient in its use. The bank conciliation is done monthly in those municipalities with an updated version of SINCOM up and running yet not in several of the sample municipalities (*i.e. Montero, Tupiza and Viacha*) for this very reason.

It is important to highlight that operation and maintenance (in health and education) are responsibility of the municipal Governments themselves. Yet expenditure execution in health centers of small and medium municipalities is not included in the budget. In many cases the management of health centers is regarded as independent from the operations of the municipality.

At the municipality of La Paz, people in charge of the budget expressed their concern about SINCOM's limitations, specifically the limited level of desegregation of expenditures which in turn hinders the proper follow-up of the budget execution increasing the possibility of embezzlement. The expenditure execution is managed through a system of fixed funds created especially for this municipality. Through this fund resources are transferred to working units of the municipality (*Sub-alcaldías, Oficialías, Executive Secretariat and Hospitals*) which then execute the approved budget. Each of those executing units has an own bank account in which the municipality deposits the amount they have been assigned.

Yet this systems has generated, among other following problems: (i) the *descargos* of the executing units are made with delays of up to eight months after the operation itself; (ii) even though the budget defines ceilings for each expenditure item, standards in control are too often relaxed with the consequence that expenditures are usually systematically higher than budgeted; and (iii) the delay and inadequate registry of the budget execution generate distortions in the information provided on budget execution. (iv) budget re-allocations are widespread. Those budget shortcomings have forced authorities to adapt the budget to the expenses incurred, and not the other way around as it should be.

At the *municipality of Montero*, reports on income and progress made in the attainment of execution objectives are published monthly. Yet meeting with the Mayor or highest authorities are held only every four months to discuss those results. Reports are addressed to the Vigilance Committee and OTBs only when a reformulation of the budget is planned. The budget and the POA are redesigned twice a year. Reformulation is made similarly to the first formulation: in both cases the needs of the community are taken into

account and there is participation of the Vigilance Committee. All expenses effectuated by the municipality need the authorization of the Mayor. Their registry is made daily and priorities of payment are defined according to the POA and the approved budget. Yet financial programming is not utilized as a management tool for the commitments taken. The control of the debt amounts is made manually based on information submitted by the *Técnico de Gastos*. With this information the mayor prioritized payments to be made without knowing whether funds are sufficient.

The *municipality of Tupiza* does not provide reports on budget execution during the year. The Vigilance Committee is submitted information at the end of the fiscal year and when the budget is reformulated, i.e. at the end of the fiscal year. Similarly to the municipality of Montero, the budget does not include current expenditures that the municipality effectuates in favor of the local hospital.

At the *municipality of Viacha* the SINCOM is used exclusively to obtain final reports to be submitted to the Ministry of Finance, but the RFM. This package is used by the Treasury to register the information of the Cash Flow (effective income and expenditures). Monthly Reports generated by the system are submitted to the UPF. It is important to note that OTBs have a strong influence in the decision making process about the prioritization of expenditures. Almost all expenditures effectuates by the municipality are on request of OTBs, even if there are neither registered in the POA nor have they been budgeted. Yet it is almost impossible to be shield from social pressure and if OTBs were ignored the Mayor would almost surely be dismissed. Similarly there is no proper financial planning to comply with the municipality's commitments. Usually payments are prioritized according to the pressure made by "lobbyist". Consequently the budget is not a management tool that enables appropriate financial management. In spite of the *certificaciones presupuestarias*, even credit is not budgeted for a specific project or program, expenditures are executed anyway. Only at the end of the fiscal year, transfers and adjustments made are regularized through a budget reformulation.

### C. BUDGET EVALUATION

In each municipality the evaluation of the budget execution is effectuated by the Planning Direction. Upon completion of this exercise a report is sent to the Mayor and to the Municipal Council for approval. Yet this evaluation is purely made at the accounting level. In none of the sample municipalities an evaluation of the social impact of executed expenditure is effectuated.

### ANNEX III . TRACKING POVERTY-RELATED EXPENDITURES UNDER THE ENHANCED HIPC INITIATIVE, PROGRESS AND PLANNED IMPROVEMENTS

Table 3 describes current data monitoring mechanisms and the measures to be taken, in the context of the Enhanced HIPC debt relief initiative, to improve the ability to track poverty related expenditures:

**TABLE 3: BOLIVIA - TRACKING POVERTY-RELATED EXPENDITURES PLANNED IMPROVEMENTS**

<i>Short-term actions (2001)</i>	
Expanding on the current reporting system to provide greater details on social and poverty-related expenditures. This system may rely on additional institutions for the collection of these data rather than on a single institution to collect and consolidate data.	There are three institutions involved in collecting poverty-related expenditures: Treasury (functional current expenditures); Public Investment and External Financing (VIPFE) (capital expenditures); and Fiscal Programming Unit (UPF) (municipal expenditures). The current system works relatively well.
Issuing new directives that require the municipalities to report on poverty-related expenditures and expenditures of HIPC resources on a quarterly basis. This will expand the coverage of the current reporting system from 111 municipalities to all municipalities, as well as improve the timeliness of reporting.	Current coverage represents about 90 percent of municipalities spending. Benefits from expanding the coverage will yield only to marginal results and distract limited resources from the UPF. It has also prepared a proposal for HIPC poverty-related expenditures tracking at municipal level, but no new directives are on sight.
Starting the implementation of SIGMA in some municipalities. The majority of cities will be required to make commitments to improve financial management and to implement SIGMA system as part of the agreements they sign in return for access to refinancing or credit from the National Fund for Rural Development (FNDR).	So far, only 5 of the largest municipalities (La Paz, Cochabamba, Tarija, Trinidad and Santa Cruz), and 2 medium size (Guayaramerin and Quillacollo) have signed an agreement to improve financial management under the Programa de Readecuacion Financiera (PRF). Negotiations with two more municipalities (Cotoca and San Jorge) have been concluded, but they are still working on the rescheduling of FNDR's loans.
Strengthen existing social oversight groups.	Recent regulation establishes a Social Control Fund. This fund will finance the Vigilance Committees expenses related to their functions.
<i>Medium-term actions:</i>	
Implement SIGMA in the 10 largest municipalities. Full implementation is expected by the end of 2002. This system will provide detailed data on poverty-related expenditures, including the use of HIPC resources. The 10 largest cities should cover the majority of HIPC and poverty-related expenditures.	Due to problems in securing counterpart financing, SIGMA implementation has been delayed by almost 3 months. By early 2002, SIGMA implementation will begin in 4 of the largest municipalities (La Paz, El Alto, Cochabamba, and Santa Cruz). It is expected that by mid-2003, SIGMA will be fully implemented in the 10 largest municipalities.
Gradual implementation of a scaled down version of SIGMA in medium- and small- sized municipalities. It is scheduled to begin in late 2001 with the first municipal systems becoming fully operational in 2002.	Implementation in medium- and small- sized municipalities is scheduled to begin in mid-2002 with the first municipal systems becoming fully operational in late-2003.
Developing a network of social oversight groups at the regional and national levels of government to support local oversight.	As a start point, a Social Control Fund has been established.

## ANNEX IV: QUESTIONNAIRE

### TRACKING POVERTY-RELATED SPENDING IN HIPC'S: AN ASSESSMENT OF BUDGETING SYSTEMS: BOLIVIA<sup>3</sup>

#### I. INVOLVEMENT OF DIFFERENT LEVELS OF GOVERNMENT

1. What amount of total Government poverty reducing spending is carried out by sub national levels of Government?
  - a. Is it 0-10 percent of total?
  - ✓ **b. Is it 10 percent to 50 percent?**
  - c. More than 50 percent?
  
2. What amount of expected additional spending (following receipt of HIPC debt relief) will be executed by sub national levels of Government?
  - a. Is it 0-20 percent?
  - b. Is it 20 percent to 50 percent?
  - ✓ **c. More than 50 percent?**

#### II. BUDGET FORMULATION

##### A. Comprehensiveness

3. Does the budget reporting entity match the GFS definition of the General Government sector?
  - a. Identical
  - ✓ **b. Very close fit**
  - c. Considerable differences
  
4. How far are General Government activities funded through defined extra budgetary funds?
  - a. Insubstantial (estimate level as a share of total spending)

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<sup>3</sup> Bold answers apply to Bolivia.

- ✓ **b. Substantial (estimate level as a share of total spending)**
  - c. Very substantial (estimate level as a share of total spending)
5. Are non-tax receipts or other non-budgeted funds available to spending units?
- a. None
  - ✓ **b. Likely to be some, but not very material (estimate level as a share of total receipts)**
  - c. Likely to be material (estimate level as a share of total receipts)
6. How would you describe the budget outturn relative to the originating budget?
- a. Very close
  - ✓ **b. Quite close**
  - ✓ **c. Not close**
7. Are donor funds included in the budget?
- ✓ **a. All**
  - b. Incomplete
  - c. None
8. Are outturn data provided on expenditures financed by donors?
- ✓ **a. All**
  - b. Incomplete, but on some other basis (describe)
  - c. None
9. Are outturn data on such expenditures timely?
- a. More timely than other budget reporting
  - ✓ **b. In harmony with the rest of budget reporting**
  - c. Later than the rest of budget reporting

### **B. Classification**

10. Indicate the levels of classification that apply to budget transactions?
- ✓ **a. Administrative**
  - ✓ **b. Economic**
  - ✓ **c. Functional**
  - ✓ **d. Program**

11. To what level does the functional classification break down?
- a. Sector level (less than 20 functional categories)
  - ✓ **b. Subsector level (between 20 and 80 functional categories)**
  - c. Sub-subsector level (more than 80 functional categories)
12. Are there any (additional) classification or institutional systems to record HIPC related or some definition of poverty reducing spending?
- a. None
  - b. Use of a virtual poverty fund, which separately identifies HIPC spending
  - ✓ **c. Use of a virtual poverty fund, which does not separately identifies HIPC spending (original HIPC resources)**
  - ✓ **d. Use of an actual poverty fund, which separately identifies HIPC spending (enhanced HIPC resources)**
  - e. Use of an actual poverty fund, which **does not** separately identifies HIPC spending

### C. Multiyear Projections

13. How would you describe the quality of the out year estimates (medium term) for spending?
- a. There are none
  - b. Low-quality estimates
  - ✓ **c. High-quality estimates, not well integrated into the budget formulation cycle.**
  - d. High-quality estimates, well integrated into the budget formulation cycle.
14. What level of detail is provided for such estimates?
- a. Same level of detail as general classification system
  - b. A level of detail to allow coding to HIPC- related spending, per question 12 above or through other means
  - ✓ **c. A level too aggregated to consider the functional additivity of the HIPC funds**

## III. BUDGET EXECUTION

## A. Internal Control

15. What are the principal forms of control to ensure that spending reflects the authorized budget?
- ✓ a. **Ex ante controls**
  - b. Other
16. (i) Do these controls involve or are they supplemented with commitment controls?
- ✓ a. **Yes**
  - b. No
- (ii) If cash rationing is a feature of the control system, describe the basis of decisions made about which activities should receive cash and which should not?
- A priority is established. For instance, first two weeks of the month are dedicated to pay salaries, the third week other expenses are honored.*
17. What do you estimate as the level of the current stock of expenditure arrears?
- a. Very few or none
  - ✓ b. **Some (up to 1 percent of GDP)**
  - c. Significant amount (more than 1 percent of GDP)
18. Are supplementary budgets used to add to or substantially change the pattern of Government spending?
- a. Yes, but for small (less than 2 percent of total spending) amounts
  - ✓ b. **Yes, and for large (more than 2 percent of total spending) amounts**
  - c. No
19. How would you describe the internal audit function?
- a. Active - run by ministry of finance
  - ✓ b. **Active - run by spending unit**
  - c. Inactive - run by ministry of finance
  - d. Inactive - run by spending unit

20. Is internal control supplemented by public expenditure tracking surveys that follow funds to the ultimate service provider or beneficiary?
- a. Yes, regularly
  - ✓ b. **Yes, sporadically**
  - c. No

### **B. In year tracking of expenditures**

21. What in-year reports are available for tracking budget performance?
- ✓ a. **Functional and program classification is reflected in the chart of accounts**
  - b. There are inconsistencies between functional and program classification and the chart of accounts.
  - c. There is no tracking on a functional and program basis
22. Is there regular reconciliation of all Government bank accounts (those held in the central bank and the commercial banks) with the Government's ledger records?
- a. It does not occur
  - ✓ b. **It occurs in a routine and timely way at least monthly**
  - c. It occurs in a sporadic and/or untimely way less often than monthly
23. In (monthly or otherwise) reports of the consolidated operations of Government, how large is the discrepancy between revenue minus expenditures (derived from MOF data) and financing items (derived from banking data)?
- ✓ a. **Less than 0.1 percent of GDP**
  - b. Between 0.1 percent and 0.5 percent of GDP
  - c. More than 0.5 percent of GDP

#### IV. BUDGET REPORTING

##### A. Regularity of Reports

24. When are budget tracking reports concerning the spending units received?
- a. They are received within two weeks of the end of the relevant period
  - ✓ **b. They are received between two weeks and four weeks of the relevant period**
  - c. They are received more than four weeks after the end of the relevant period
25. Are the tracking reports supplemented by information on commitments?
- ✓ **a. Yes, routinely**
  - b. Yes, but not routinely
  - c. No
26. How often does the public and/or the legislature receive budget tracking reports?
- a. More often than quarterly, within four weeks of the relevant period
  - b. More often than quarterly, but more than four weeks after the relevant period
  - c. Quarterly, within four weeks of the relevant period
  - d. Quarterly, but more than four weeks after the relevant period
  - ✓ **e. Less often than quarterly**

##### B. Final Audited Accounts

27. What is the period between the end of the fiscal year and the closure of the 'books'?
- a. Less than two weeks
  - ✓ **b. Between two weeks and two months**
  - c. Between two months and six months
  - d. More than six months
28. How soon after the end of the relevant year are the accounts forwarded to external audit?
- ✓ **a. Within three months**
  - b. Within six months

- c. Between six months and one year
  - d. More than one year
  - e. Never
29. How soon after the end of the relevant year are the audited final accounts presented to the public and/or the legislature?
- a. Within three months
  - ✓ **b. Within six months**
  - c. Between six months and one year
  - d. More than one year
  - e. Never

## V. BUDGET EVALUATION

30. Are any efforts being mounted to assess the effects of spending on the incidence of poverty?
- ✓ **a. Broad social indicators of poverty (Aggregate level)**
  - b. General program evaluation of outputs or outcomes
  - ✓ **c. Targeted evaluation of sector or other poverty programs (FIS)**
  - d. Tracking studies of HIPC-related funds

### A. Capacity for Change

31. How would you describe the efforts by the authorities over the past three years to improve budget management and reduce wastage?
- ✓ **a. Strong effort, considerable improvements made**
  - b. Strong effort, but little improvement made
  - c. Little effort, but system not deteriorated
  - d. Little effort, but system deteriorated

*Please, specify the improvements made in public expenditure management.*

32. How would you describe the use of technical or donor assistance in improving budget management in the past?
- ✓ **a. Considerable assistance and substantial progress**
  - b. Considerable assistance and little progress or worse
  - c. Little or no assistance and substantial progress
  - d. Little or no assistance and little progress or worse

33. Please identify current providers of technical or donor assistance and their plans
- ✓ a. **World Bank and IBD (specify)**
  - b. IMF (specify)
  - c. Other (specify)
34. Would the country make good use of new donor assistance?
- ✓ a. **Yes-definitely**
  - b. Probably
  - c. Uncertain
  - d. No
35. In what areas do you think donor assistance should focus (please specify)?
- a. Budget formulation, such as
    - (i) Comprehensiveness
    - (ii) Classification
    - (iii) Multiyear projections**
  - b. Budget execution, such as
    - (i) Internal controls
    - (ii) Management tracking and monitoring**
    - (iii) Budget reporting
    - (iv) Budget evaluation and expenditure policy**
36. Are there any other problems which you believe would have a significant positive or negative effect on either:
- a. The quality of public expenditure management (specify)
  - b. The capacity for change (specify) (**See Section A above**)