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**PUBLIC EXPENDITURE MANAGEMENT
COUNTRY ASSESSMENT AND ACTION PLAN
(AAP)**

GUYANA

**PREPARED BY THE STAFF OF THE IMF AND WORLD BANK IN
COLLABORATION WITH THE GUYANESE AUTHORITIES¹**

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LIST OF ABBREVIATIONS

AAP	Assessment and Action Plan
AG	Accountant General
AGO	Auditor General's Office
CF	Consolidated Fund
CG	Central Government
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Report
COFOG	Classification of the Functions of Government
DFID	UK Department for International Development
EC	European Commission
GOG	Government of Guyana
GFS	Government Financial Statistics
GGB	Guyana Gold Board
GRA	Guyana Revenue Authority
G\$	Guyana Dollar (1 US\$ is approximately 1.75 G\$)
HIPC	Heavily Indebted Poor Countries
IFMAS	Integrated Financial Management Accounting System
IMF	International Monetary Fund
NPI	Non-Profit Institution
NIS	National Insurance Scheme
MOF	Ministry of Finance
PAC	Public Accounts Committee
PCPMU	Policy Coordination and Program Management Unit
PPC	Public Procurement Commission
PSTAC	Public Sector Technical Assistance Credit
MTEF	Medium Term Expenditure Framework
NPTA	National Procurement and Tender Administration
PEM	Public Expenditure Management
PER	Public Expenditure Review
PRP	Poverty Reduction Program
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
QFA	Quasi-Fiscal Activities
TA	Technical Assistance
WB	World Bank

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I. EXECUTIVE SUMMARY

Introduction

In 2001, staff of the World Bank and the IMF undertook a comprehensive assessment of the public expenditure management (PEM) system in Guyana. The objective was to assess the capacity of the PEM system to support successful implementation of Guyana's Poverty Reduction Strategy (PRS) and its commitments made under the Enhanced Heavily Indebted Poor Country (HIPC) initiative. The mission focused particularly on Guyana's capacity to track poverty-reducing spending. In addition, an overview of donor activity in the PEM field was compiled. This enabled, in combination with identified weaknesses in the PEM system, presentation of an action plan to the Guyanese authorities containing short- and medium-term reform recommendations.

The 2001 assessment concluded that Guyana was performing reasonably well in tracking poverty spending. Of 15 benchmarks covering budget formulation, execution and reporting, Guyana met eight of these, placing it in the best performing group of the then 23 HIPCs assessed. Budget reporting was identified as relatively strong, while budget formulation, and especially execution were areas needing substantial further reform. Key weaknesses related to accuracy and dependability of data, the lack of internal control mechanisms and the very limited incorporation of medium-term considerations in budget preparation. Table 1 summarizes Guyana's performance against the 15 benchmarks in 2001.

Guyana has been engaged in increasingly substantial efforts to improve its PEM system over recent years. Very prominent has been the impact of the CIDA-funded GEMP project, which has delivered substantial reform in development of an integrated financial management accounting system (IFMAS) for central government, further development of program budgeting, and automated budget preparation capabilities. The IDB has been active in institutional strengthening and governance reform, and now stands set to replace CIDA as the main donor in the PEM field as the GEMP project draws to an end. In the legislative sphere, a much-improved organic budget law has been enacted and partially come into force. A new procurement law and an audit law have also been developed and enacted, but still await implementation. A March 2003 staff review updating the Bank and the Fund's Boards on PEM reforms under the HIPC process concluded that Guyana had only implemented or started some 35 percent of recommendations of the 2001 assessment. This is an indication that much of Guyana's reforms are still a work in progress and have not been consolidated.

The Executive Boards of the World Bank and the Fund have requested another comprehensive assessment of now 28 HIPCs to gauge the progress made in PEM development since 2001. New in this round of AAPs (Assessment and Action Plans) is the self-assessment of the PEM system by the authorities at the start of the process, inclusion of a new benchmark for the soundness of the procurement process, and further clarification of the assessment methodology. In addition, Bank and Fund Boards intend to request authorities' approval of publication of their AAP report. Such publication will enhance the report's use for donor coordination and promotion of PEM reforms.

This second comprehensive assessment has been prepared by an IMF-led mission with support of World Bank staff, and in excellent collaboration with the Guyanese authorities. Meetings were held with EC, CIDA, DFID, USAID, IDB and WB resident representatives to input donor views and coordinate recommendations. Prior to the mission, the authorities provided staff with a self-assessment of the progress made since 2001. The mission is grateful to the authorities, and especially the staff of the Budget Office of the ministry of finance, for the professional cooperation and assistance in preparing this assessment. The report has incorporated comments received from the authorities and from reviewers at Bank and IMF headquarters.

Main conclusions

Guyana improved its score in the benchmarking exercise on three indicators, while one needed to be adjusted downward. The extent of reporting on extra-budgetary revenues in the budget and fiscal accounts has improved by incorporating basic data on the National Insurance Scheme (NIS) in the budget documents, while more detailed final accounts are presented to the National Assembly on a timely basis (Indicator 2). More details on the NIS, however, should be included in the budget documentation. Extensive work on the development of program budgeting has meant substantial improvement in classifying government expenditure (Indicator 5, Table 1), which will facilitate the translation of government policy in budgetary decision-making. Related to this improvement, but also thanks to the new IFMAS, the ability to track and to report in-year on poverty reducing expenditure (Indicator 13) has increased markedly. Overviews and analysis on poverty related expenditure could, however, be provided on a more regular basis in budget documents, and—through the Policy Coordination and Program Management Unit (PCPMU) at the Office of the President—to domestic and foreign stakeholders. The indicator on coverage of fiscal information (Indicator 1) had to be adjusted downward, given further clarification of its scope, due to the very limited provision of information on statutory bodies in fiscal reporting.

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Overall, the number of benchmarks met increased by two; in addition, many additional reforms are in the pipeline and could come to fruition within the next 12 months. The ministry of finance (MOF) plans to introduce biweekly bank reconciliation for the Consolidated Fund, which will provide much needed assurances on the accuracy and dependability of fiscal data. The outdated procurement process has undergone legislative change and, given resolution of political issues, should result in major improvements in transparency and competitiveness. Finally, the new Financial Management and Accountability Act will again, once fully operational, lead to improved coverage of fiscal reporting and implies an important step in enhancing the internal control framework of government.

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The reform process in the PEM field faces major challenges with respect to continuity of donor support, limited staff capacity and a daunting change agenda. The ending of CIDA's GEMP project carries great risk for the continuity of the IFMAS. While the system is now operational for transaction processing, and accounting and reporting functionality, a number of the system features still needs to be activated and the helpdesk and trouble

shooting function for end-users is still extensively used, something which can be expected in the fifth month of operation. ~~Moreover~~, the capacity of the accountant general's office to take full ownership of the system, which is scheduled for later this year, is not there at present. The new main donor in the PEM field, the IDB, should be made aware that safeguarding of the present system, and of the latest reforms/modules to be introduced under GEMP, is of utmost importance. In the mission's view, the authorities should discuss with CIDA and IDB the continuation of the present or a similar IFMAS support team for a period of 9–12 months. An period of overlap of the exiting team with the incoming team would facilitate a transition process that should be led by the ministry itself. The latest contributions that GEMP is planning to make, the bank reconciliation module, the functional classification mapping, and the medium-term budgeting module, should be followed through as priorities with the new donor. To accommodate these priorities and to make transition of the IFMAS to the accountant general's office possible within a one-year time horizon, the restructuring of the accountant general's office should be undertaken with urgency.

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A gradualist approach should be taken to further reforms such as medium-term budgeting. This reform will need more than an improved IT tool. Development of costing and forecasting methodology, communication and training of line ministries, all need to be prepared carefully, and adequate staffing should be in place. Requesting of medium-term bids from line ministries can easily lead to a plethora of meaningless information. The Budget Office should ideally be strengthened with a capacity—in the various areas of budget reform—to plan and coordinate change, prepare manuals and instructions and train line ministry staff. Further major work for the Ministry lies in refinement of the program budgeting structure, (phased) integration of capital and recurrent budgets and further development with the line ministries of the planned program performance statements. In the view of the mission, the ministry would benefit from an additional donor funded (semi-) permanent budget advisor to coordinate part of this change agenda.

Numerous smaller short- and medium-term recommendations are made in this report. Of these, the introduction of arrears monitoring, the building of an oversight and standards setting function within MOF over the internal audit function in government through the accountant general's office, the further clearing away of spurious bank accounts, and the development of IFMAS auditing skills at the auditor general's office, should be qualified as priorities, in the view of this mission.

Table 1. Public Expenditure Management AAP Indicators in Guyana

		ASSESSMENT			
		Standard Benchmark	2001 Assessment	2004 Assessment	Progress Made
FORMULATION					
COMPREHENSIVENESS					
1	Fiscal reporting adequately covers the Government Finance Statistics definition of the general government sector	A	A	B	-1
2	Government activities are not funded through inadequately reported extrabudgetary sources to a significant degree	A	B	A	+1
3	Budget outturn data are quite close to the original budget	B	B	B	
4	Fiscal reports include grants projected to be provided by donors	A	A	A	
CLASSIFICATION					
5	Budget expenditures are classified on an administrative, economic, and detailed functional or programmatic basis	B	C	B	+1
6	Poverty-reducing expenditures are clearly defined	A	A	A	
PROJECTION					
7	Multi-year expenditure projections are integrated into the budget formulation process	A	B	B	
EXECUTION					
INTERNAL CONTROL					
8	There exists a small stock of expenditure arrears, with little accumulation of arrears over the previous year	A	A	A	
9	Internal control is effective	A	B	B	
10	Tracking surveys are in use, or are unnecessary	B	C	C	
RECONCILIATION					
11	Satisfactory reconciliation of fiscal and banking records is undertaken routinely	A	C	C	
REPORTING					
IN-YEAR REPORTING					
12	Internal fiscal reports are received within four weeks of the end of the relevant period	B	A	A	
13	Good-quality classification of poverty reducing spending is reflected in the in-year budget reports	A	B	A	+1
FINAL AUDITED ACCOUNTS					
14	Routine transactions are entered into the main accounting system (s) within two months of the end of the fiscal year	A	A	A	
15	An audited record of the financial outturn is presented to the legislature within twelve months of the end of the fiscal year	B	B	B	
NEW					
PROCUREMENT					
16	The procurement system supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money.	A		C	
TOTAL NUMBER OF BENCHMARKS MET			8	10	
INCREASE IN INDICATOR SCORE					2
Notes: Please shade cells in cases where the assessed indicator meets or exceeds the standard benchmark level					

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FORMULATION	
COMPREHENSIVENESS	
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NEW	
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16	The procurement system supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money.
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II. COVERAGE

While Guyana has three distinct levels of government, the second level of government is fully incorporated in the central government’s PEM system, while the third level is fiscally not very significant.² For these reasons, this assessment limits itself to assessing the capacity to allocate and track poverty reducing spending at the central government level. The second and third tiers of government do have independent political processes. The second level, the regions, headed by Regional Development Councils, are, however, fully integrated into the central government budgetary process, on an equal footing with line ministries and other central government agencies. Their budgets are part of central government’s budget. For each region, the budget is presented as comprising several programs: one for Administration, Education, Health, Agriculture, and Public Works. The regions have no significant own revenues. Their expenditure is funded through the Consolidated Fund (CF) or international donors, but those funds are also specified in the central government budget. The auditor general incorporates all three levels of government in its audit activities, although there is significant backlog in auditing municipalities and neighborhood democratic councils.

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Table 2. Total and poverty spending channeled through local government (actuals)

	2001	2002	2003
Regional expenditure as a percentage of government expenditure	11.8%	13.7%	12.7%
Poverty expenditure as a percentage of government expenditure	41.9%	46.6%	42.8%
Regional poverty expenditure as a percentage of poverty expenditure*	22.0%	19.2%	21.6%
Regional poverty expenditure as a percentage of regional expenditure*	71.4%	72.1%	72.4%

*The nominator includes only health and education spending (capital and recurrent), and is thus more narrowly defined than Guyana’s overall poverty expenditure described under Indicator 6.

All poverty spending is part of Guyana’s central government budget; part of it is channeled through central ministries and part through the Regional Development Councils. Table 2 illustrates that central government spent 42.8 percent of its total expenditure on pro-poor spending in 2003. The table also shows that 12.7 percent of total and 21.6 percent of poverty related expenditure was channeled through the second level of government in 2003. The somewhat stronger focus on poverty spending at the regional reflects the more limited scope of government at this level, which enables relatively more attention on social programs. It should be noted, however, that line ministries are also active at the regional and municipal/neighborhood level. The expenditure of municipalities and neighborhoods is funded through own revenues (taxes, fees, charges, etc.) and grants from the second tier of government. The MOF only tracks the expenditure of municipalities and neighborhoods to the extent it has been provided through grants.

² The third level of government consists of six municipalities and 65 Neighborhood Democratic Councils. The municipalities are funded almost completely by own revenues, while the neighborhoods also receive small block grants from the regional authorities for their operations. The total expenditure of municipalities is estimated at 2.7 percent of central government expenditure.

III. BUDGET FORMULATION

Indicator 1 ~ Coverage of the budget or fiscal reporting entity

Question: How well does the coverage of fiscal information match the Government Finance Statistics (GFS) definition of the general government sector?

Benchmark: (A)—Very close fit. Fiscal reporting covers the GFS definition of the general government sector, i.e., including central, regional, and local governments, and all government operations, whether funded through the budget or not.

Assessment: (B)—Close fit. This benchmark is not met. Ex-ante and ex-post fiscal reports are produced in a timely manner but capture fiscal information estimated to cover less than 95 percent (by value) of general government operations as defined by the GFS. This assessment is based on the very limited reporting on statutory bodies.

The GFS definition of general government comprises all government units, and nonmarket-nonprofit institutions (NPIs) that are controlled and mainly financed from government units. This includes all units of central and local governments, statutory bodies established as government owned self-governing units carrying out government policies, and extra-budgetary funds. Both statutory bodies and extra-budgetary funds are generally established by specific Parliamentary Acts and usually have an arms-length governance relationship with government. In addition, extra-budgetary funds are usually defined as vehicles for specific spending, financed from earmarked revenues or receipts. In this distinction, the Guyanese new Financial Management and Accountability Act (FMAA) mirrors the IMF's GFS 2001. The GFS 2001 definition of general government excludes state-owned financial institutions and public corporations established under Company Law, and generally operating under market circumstances. It also excludes those enterprise type operations of government which operate on a commercial basis, but which are not as yet, for one reason or another, incorporated under Company Law. Finally, it excludes the Central Bank.

Fiscal reporting of general government should include—in reasonable detail—all operations of the above mentioned units, including any receipts, and corresponding payments, not appropriated in annual budgets of central and local governments. In principle, it should also include quasi-fiscal operations carried out through non-general government entities, such as financial institutions or commercial banks, as well as tax expenditures incurred as a result of exemptions or other tax rebate mechanism established under law.³ The object of fiscal reporting is to ensure that the government is fully aware of all the relevant information when deciding overall fiscal policy and prioritizing government expenditure, or adjusting them in mid-course. The full disclosure of all government operations through timely and routine accounting reports is essential to ensure that the government is fully able to report comprehensively on the assets and resources that it manages in the name of the general public.

³ For the purpose of assessing the score on this indicator, non-inclusion of tax expenditure in fiscal reporting has not been included.

The budget and fiscal reports in Guyana cover central and regional government, but statutory bodies are included only with respect to grants provided or surpluses received. Guyana's one extra-budgetary fund, the National Insurance Scheme Fund, is incorporated in the budget documents, although only limited specification of its expenditure is provided.⁴ Central government incorporates various central offices,⁵ the judiciary,⁶ ministries and several (semi)-independent government bodies,⁷ and, as discussed, almost all of local government. Fiscal documents also contain (limited) aggregated information, on a gross and on a net basis, on public enterprises.

The present limited and partial information on statutory bodies in budget documents is not transparent. Of 65 statutory bodies in Guyana in 2003, 51 received block grants from central government. Table 3 provides an overview on the grants provided to these bodies. As yet, only grants and surplus revenues of these bodies are reported in fiscal documents produced by the MOF, which is a lower standard of information provision than for the rest of the government sector.⁸ The normal presentation in budget documents follows a programmatic budget structure with details on broad economic categories. This should also be the format for statutory bodies. The MOF does internally review the full budget proposals of statutory bodies in the assessment of their grant requests during budget preparation. Of the important net revenue-earning statutory bodies, MOF does not receive full budget proposals for review, but instead relies on more indirect influence through participation in their governance structure, i.e. through board membership.

Table 3. Number of grants receiving statutory bodies and total amounts received (in billion G\$)

	2001	2002	2003
Number of statutory bodies	51	56	51
Grants received by statutory bodies	3.51	4.56	4.35
Grants as percentage of central government expenditure	5.3%	7.4%	6.1%

The specific legislation which set up statutory bodies in general requires timely provision of financial statements and auditing of these by the auditor general. These audited statements are subsequently sent to the National Assembly. The auditing of statutory bodies shows a sizable backlog that is mainly due to the non-submission of final accounts by statutory bodies to the Auditor General's Office (AGO).

⁴ The NIS is classified as a Statutory Body in Guyana, but has characteristics of an extra-budgetary fund as specified in the new Financial Management and Accountability Act 2003 (FMAA).

⁵ Offices of the President, Prime Minister, Parliament, Auditor General, and Ombudsman.

⁶ Supreme Court, Public Prosecutions and Public Service Appellate Tribunal.

⁷ The Public and Police Service Commission, the Teaching Service Commission and the Elections Commission.

⁸ A number of statutory bodies, those neither receiving grants, nor transferring surpluses, is not reported on at all in fiscal documents.

Under the new Financial Management and Accountability Act (FMAA), the provision of financial information by statutory bodies will improve considerably. Both budgets and final accounts information of statutory bodies should in future be presented to the National Assembly. This should be done within roughly the same time frame as the submission of the Central Government Budget and Final Account.⁹ In the view of the mission, the financial information on statutory bodies should also be included and summarized in budget documents. For the central government budget, this should not form a problem. As indicated, most grant-receiving statutory bodies do present their budgets to the MOF during the period of budget preparation for discussion on their grant. However, inclusion in the central government final accounts may form a problem given the sizable backlog of audited final accounts by statutory bodies.

The status of statutory bodies was under internal review by the authorities during the mission, and further study on this issue is deemed necessary. In general, the following may provide some guidance to whether the status of statutory body is appropriate. Statutory bodies should not be primarily focused on preparation and implementation of government policies. All line ministry-type organizations should be subject to the normal budget process. Regulatory tasks requiring a certain independence from government do warrant the status of statutory bodies. Organizations performing primarily market activities might better be classified as public or private enterprises, while entities pursuing societal rather public policy aims should be redefined as nongovernmental organizations. The authorities plan to use the IDB's Public Management Modernisation Project to further investigate a satisfactory restructuring of statutory bodies.

The full scope of statutory activities could only be estimated by the mission, but resources going through statutory bodies lie in the order of 7 percent of government expenditure. Grants to statutory bodies totaled 6.1 percent of central government expenditure in 2003. Of the approximately 65 Statutory Bodies that existed in 2003, only five earn substantial amounts of own revenue. In 2003, the gross revenues of these Statutory Bodies totaled 0.9 percent of central government expenditures.¹⁰

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Quasi-fiscal activities of public enterprises, which were dominant in previous decades, have been discontinued. While the mission did not have the resources to ascertain this, counterparts and available third party documentation maintained this.

Tax exemptions for corporations and individuals are presently reported on when initially granted. The authorities have recently agreed this with the Fund. However, tax

⁹ Under the new FMAA Statutory Bodies will be required to submit their audited reports within 4 months after the end of the fiscal year.

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¹⁰ The gross revenues and expenditures of the Guyana Gold Board (GGB), the state monopoly in charge of selling Guyana's gold resources on the international market, were in the order of 10 percent of central government spending. The operating expenses plus financial surplus of the Gold Board is extremely low; in the order of 0.1 percent of government spending, or less. Even if the GGB were to be classified as part of general government – the mission was unable to assess the full extent of operational independence – under the IMF's GFS1986 and 2001 methodology, the GGB would only need to be consolidated on a net basis.

expenditure is not systematically reported on in ex-ante or ex-post fiscal documents. Corporate tax holidays in various forms have been provided to domestic and international investors in the past on a regular basis. These expenditures are administered by the Guyana Revenue Administration (GRA).¹¹ However, the MOF is not systematically involved in budgeting or reporting on these expenditures, and they are not included in the overall assessment of the resource envelope. Individual dossiers are tabled in Cabinet, but details, and a yearly update of the costs involved, are not provided to the National Assembly or the public at large. For the medium-term, it would be good practice to include tax expenditure data in summary form in the central government Annual Budget and Final Accounts.

Action Plan

Short-term measures

- Information on statutory bodies should be included, with more detail, in central government Budget and Final Accounts Documents and thus be presented jointly with other expenditure data to the National Assembly. As discussed under Indicator 2, this information should be presented on a gross basis.
- Prompt provision of final accounts by statutory bodies should be enforced by their respective Boards and responsible minister.

Medium-term measures

- The authorities plan to use the IDB Public Management Modernisation Project to further investigate the restructuring of statutory bodies. The mission's view is that Guyana does need to optimize the number of and the total expenditure flowing through these bodies. Criteria should be specified for bringing statutory bodies inside central government, outside the public domain, or retaining them in their present status. In general, activities of statutory bodies involved in preparing and implementing government policies should be fully incorporated into the budget process, commercial activities should be brought outside the scope of government, while regulatory activities may be appropriately located in statutory bodies.
- Discretionary tax expenditure decisions are presently reported on when granted by government to individual corporations or individuals. The aim of the MOF should be to provide an overview of new and existing tax expenditures and their expected costs for the budget year in budget documentation next to the presentation of regular expenditures.

¹¹ The GRA is also a relatively independent statutory body.

Indicator 2 ~ Degree of spending being funded by inadequately reported extra budgetary sources.

Question: To what degree are general government activities funded through inadequately reported extra budgetary sources?

Benchmark: (A)—Not significant. Government activities are not funded through inadequately reported extra budgetary sources to a significant degree (3 percent or less of total spending).

Assessment: (A)—Not significant. This benchmark is met. The National Insurance Scheme is an appropriate extra-budgetary fund reported on on a gross basis in the budget documents and final accounts. The level of detail should be increased, however. The size of other extra-budgetary funds does not exceed 1% of central government spending. Legislation to improve ex-ante and ex-post information on statutory bodies has recently been introduced.

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Guyana's National Insurance Scheme (NIS) is integrated into budgetary documentation on a gross basis but should be reported on in more detail. The size of NIS was roughly 9.6 percent of the central government's annual budget in 2003. NIS payments are not channeled through the Consolidated Fund. Given the specialized payment and verification requirements for its target group of pensioners and disabled and sick workers, this seems appropriate. The specific semi-public tasks of the NIS and its earmarked revenue make the NIS a typical and appropriate extra-budgetary fund. NIS information in (ex-ante and ex-post) budget documents should include more details on what moneys are spent for, revenue intake, outstanding unpaid contributions, and assets and liabilities. The mission was informed that technical assistance to the NIS has been limited. Given the large flows of money involved upgrading of NIS financial management may reap important benefits. The NIS has improved its provision of final accounts considerably in recent years and is now up to date to 2002. The final accounts do provide insight in the NIS asset and liability position. A full review of NIS legislation, structure and policies is planned for the coming years. The investment strategy of the NIS, which now largely to invest in safe, but low interest earning T-Bills, would need to be part of that review.

As indicated above, a limited number of statutory bodies have own revenues in the order of 0.9 percent of central government expenditures. These entities at present are not adequately reported on in public documents. The limited extent of these bodies raises the scoring on this indicator to the "A" level. The reporting on the expenditure and revenues of these entities is limited to net revenues. The mission would suggest that in FY2005 the authorities, in addition to the new FMAA requirements, take the opportunity to include expenditures and revenues of these bodies, in some detail, in the central government budget and final accounts.

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The main net revenue-earning statutory bodies include the Guyana Geology and Mines Commission, Guyana Forestry Commission, and the Guyana Lotteries Commission.¹²

These provide their revenue intake not directly to the Consolidated Fund but only transfer a realized surplus on their operations at irregular intervals. The Lotteries transfer their surplus revenues to a separate account, which is also not good practice, from a cash management point of view.¹³ Other examples of not appropriate revenue retention exist.¹⁴ In general, when revenue collection is a large part of the role of statutory bodies, it is good practice that these revenues are remitted to the consolidated account immediately, as is the case with GRA tax collection. Retention of approved budget funding by these bodies, for example on a monthly basis, could be considered.¹⁵

The government has operated a Contingency Fund of up to 2 percent of previous year expenditure. This Contingency Fund is not identified in the budget. When emergency expenditure is needed, the Contingency Fund is funded by the Consolidated Fund and expenditures are realized. Supplementaries provide parliamentary approval after the fact. This necessitates identify savings or extra/windfall revenues to maintain the fiscal position. These are, however, not reported on in the supplementaries. The use of, and reserves, in the Contingency Fund are reported on ex- post and audited by the AGO. Under the new FMAA, in the 2005 Budget, the Contingency Fund will become a sub-account of the Consolidated Fund.

Action Plan

Short-term measures

- Improved ex-ante reporting on the NIS—through which a significant amount of public money is channeled—is a priority for the central government budget document.

Medium-term measures

- Revenues of Statutory Bodies with substantial net earning should be channeled through the Consolidated Fund. This would require change in legislation. This would be a first step in developing the Consolidated Fund into a Treasury Single Account structure, which has become the international standard for controlled and efficient budget execution.

¹² The Guyana Gold Board and the Frequency Agency are less significant from a surplus dotation point of view.

¹³ Any funds from this account, when actually spent (on culture, sports and the arts), are incorporated in line ministry budgets on an ex-post basis. This means that from a budget planning pnt of view these expenditures are not part of the normal budget process, and should be viewed as quasi-fiscal activities.

¹⁴ The Georgetown Public Hospital Corporation is, despite its name, fully integrated into the central government budget. The auditor general has reported on, in his opinion, the illegal retention of revenues by the hospital. The new FMAA is also quite clear that all budget agencies' receipts are to be credited to the Consolidated Fund and only allowed to be used to the extent appropriated (Article 21 (2)).

¹⁵ This would not apply for the NIS as revenue intake is not an independent function but geared to funding specific expenditure.

Deleted: Most of this revenue is revenue of the Gold Board, whose revenues have risen substantially over the past two years due to historically high gold prices. Guyana's gold production is expected to start declining in the coming years, while from an institutional perspective, if anything, the overall number of statutory bodies has been slightly reduced. For these reasons, the mission the score to increase again to a B in the near future. This is still below the benchmark score of A. In addition, reporting on statutory bodies to the National Assembly stands ready to improve significantly under the new FMAA. However, the mission would suggest that in FY2005 the authorities, in addition to the new FMAA requirements, take the opportunity to include expenditures and revenues of these bodies, in some detail, in the central government budget and final accounts. ¶

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Indicator 3 ~ Reliability of budget as a guide to future.

Question: How would you describe the level and composition of the budget outturn at an administrative or functional level relative to the original budget's appropriations?

Benchmark: (B)—Quite close. Budget outturn data are quite close to the original budget.

Assessment: (B)—Quite close. **This benchmark is met.** At the aggregate level, outturns differ only moderately from the original budget appropriations. However, significant variations between budget and actual spending do occur at the economic and agency levels.

The predictability of the actual budgetary development is an important indicator of the maturity of the PEM system. Significant variations, overall, and to the budgeted provision for individual agencies, cause disruption to agency planning, risks over-commitment (and arrears) and has the potential to undermine the objectives of the budget approved by Parliament including those related to the reduction of poverty.

Variation between budgeted and actual revenue collections were +1.8 percent and -1.3 percent in FY2002 and FY2003 as can be seen in Table 4 and this can be regarded as a good result. The under-budgeting in 2001 of 5.9 percent was driven by a major under-collection of tax (-7.4 percent).

Table 4. Revenue and expenditure predictability—difference between actual and budget

	Difference (in billion G\$ and %)					
	2001		2002		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
Total Revenue	-2.6	-5.9%	0.8	1.8%	-0.6	-1.3%
Tax revenue	-3.0	-7.4%	-0.1	-0.1%	-1.0	-2.3%
Non tax revenue	0.4	12.7%	0.8	29.4%	0.4	10.9%
Total Expenditure	-1.3	-2.5%	-4.0	-7.0%	-6.0	-9.4%
Personal Emoluments	-1.0	-6.1%	0.0	0.1%	-0.6	-3.3%
Other Recurrent	-0.3	-1.9%	-0.7	-3.3%	-1.3	-5.7%
Capital	0.0	-0.1%	-3.4	-15.7%	-4.2	-17.0%

Expenditure showed a significant underachievement of -7.0 percent in FY2002 and -9.4 percent FY2003 in contrast with FY2001 where actual expenditure was only 2.5 percent less than budgeted. The principle cause of the underspending in FY2002 and FY2003 were delays in the start up of the Skeldon Sugar Factory project in late 2003. If the variations are discounted for this, the shortfalls reduce significantly. The MOF has argued that the expenditure outcome in FY2002 and FY2003 was significantly distorted by the slippage in the Skeldon Sugar Factory project and this should be removed from the assessment. There is no doubt that slippage for this project had a major impact on the outcomes for FY2002 and FY2003; however, its impact does not make it, for the purposes of this assessment, any different from any other over- or under-estimate.

Deleted: Guyana's performance benefits to some extent by the late submission and approval of the annual budget. The new FMAA has not redressed the issue of the budget being passed three months into the budget year. This is not good international practice and disrupts implementation of new capital projects. It also enables the budget department to take the past year's realization into account when finalizing the budget, which improves accuracy of the budget somewhat. Another practice that inflates performance to some extent is not budgeting for the earmarked expenditure financed by the yearly rice levy, but instead inserting a symbolic amount in the budget. A realistic estimate both of the earmarked expenditure and the rice levy should be presented in the budget.¶

¶ **Individual agencies experienced significant variations between budget and actuals over the three years.** A substantial proportion of agencies received variations to their budgets in excess of 5 percent with many even receiving variations greater than 10 percent. The weighted average of agency variations for 2001, 2002 and 2003 were 21.0 percent, 10.5 percent and 9.4 percent, respectively. The figures do indicate a marked improvement in recent years.¶

**Table 5. Agency Expenditure Outcome Variations compared with Budget
(in billion G\$ and %)**

Agency		2001		2002		2003	
		Diff	%	Diff	%	Diff	%
1	Office of the President	0.082	5%	-0.212	-12%	-0.124	-8%
2	Office of the PM	-0.032	-30%	-0.001	-2%	-0.001	-2%
3	Finance	4.658	57%	-0.898	-8%	1.181	7%
4	Ministry of Foreign Affairs.	-0.110	-8%	0.024	2%	0.045	3%
5	Parliament Office	-0.014	-7%	0.008	4%	-0.012	-5%
6	Auditor General	-0.005	-3%	-0.001	-1%	-0.005	-3%
7	Public Service and Police Commission	-0.004	-11%	-0.007	-22%	-0.010	-28%
8	Teaching Services Commission	-0.002	-8%	-0.005	-17%	-0.005	-16%
9	Elections Commission	-0.022	-2%	-0.506	-73%	-0.042	-17%
10	Local Govt	-0.050	-8%	-1.047	-93%	0.000	
11	Local Govt & Reg Dev	-0.284	-38%	1.202	-100%	-0.477	-39%
12	Information	-0.046	-42%	0.000	0%	0.000	
13	Public Service Ministry	-0.021	-28%	-0.042	-24%	-0.036	-27%
14	Foreign Trade and International Cooperation	0.000	0%	-0.001	-16%	-0.001	-24%
15	Amerindian Affairs	0.000	0%	-0.039	-70%	-0.027	-50%
16	Agriculture	-0.188	-8%	-0.303	-16%	-0.301	-15%
17	Trade & Tourism	-0.008	-9%	0.000	0%	0.000	
18	Tourism	-0.210	-58%	-0.218	-48%	-0.050	-17%
19	Works	-0.935	-19%	-0.906	-17%	1.022	18%
20	Education	0.266	4%	-0.290	-4%	-0.898	-14%
21	Health & Labour	-0.015	-2%	0.000	0%	0.000	
22	Health	-0.313	-29%	-0.362	-15%	-0.019	-1%
23	Human Services	0.000	0%	0.000	0%	0.000	
24	Lab, Hum Serv & Soc Sec	-0.090	-7%	-0.393	-17%	-0.216	-11%
25	Culture	0.000	0%	-0.003	-1%	-0.015	-3%
26	Housing	-0.405	-16%	-0.254	-8%	0.672	20%
27	Georgetown Public Hospital Corporation	-0.055	-3%	-0.139	-8%	-0.115	-5%
28	Home Affairs	-0.017	0%	0.167	4%	-0.209	-5%
29	Legal Affairs	-0.045	-23%	0.002	1%	-0.024	-8%
30	Guyana Defense Force	0.837	33%	0.077	3%	-0.076	-3%
31	Supreme Court	0.014	4%	-0.040	-8%	-0.030	-6%
32	Prosecutions	-0.002	-5%	-0.003	-7%	-0.007	-13%
33	Ombudsman	0.000	-3%	0.001	7%	-0.002	-12%
34	PSAT	-0.005	-29%	0.004	26%	0.007	31%
35	Region 1	-0.028	-6%	-0.041	-8%	-0.020	-4%
36	Region 2	-0.062	-6%	-0.039	-4%	-0.025	-2%
37	Region 3	-0.035	-3%	-0.046	-3%	-0.059	-4%
38	Region 4	-0.070	-6%	-0.008	-1%	-0.024	-2%
39	Region 5	-0.051	-7%	-0.068	-8%	-0.057	-6%
40	Region 6	-0.105	-6%	-0.059	-4%	-0.114	-6%
41	Region 7	-0.030	-7%	-0.003	-1%	-0.028	-5%
42	Region 8	-0.052	-22%	-0.032	-12%	-0.016	-6%
43	Region 9	-0.059	-13%	-0.044	-9%	-0.044	-9%
44	Region 10	-0.052	-7%	0.012	1%	-0.039	-4%

Guyana's performance benefits to some extent by the late submission and approval of the annual budget. The new FMAA has not redressed the issue of the budget being passed three months into the budget year. This is not good international practice and disrupts implementation of new capital projects. It also enables the budget department to take the past year's realization into account when finalizing the budget, which improves accuracy of the budget somewhat. Another practice that inflates performance to some extent is not budgeting for the earmarked expenditure financed by the yearly rice levy, but instead inserting a symbolic amount in the budget. A realistic estimate both of the earmarked expenditure and the rice levy should be presented in the budget.

Individual agencies experienced significant variations between budget and actuals over the three years. A substantial proportion of agencies received variations to their budgets in excess of 5 percent with many even receiving variations greater than 10 percent. The weighted average of agency variations for 2001, 2002 and 2003 were 21.0 percent, 10.5 percent and 9.4 percent, respectively. The figures do indicate a marked improvement in recent years.

Indicator 4 ~ Inclusion of donor funds

Question: Are donor funds included in central, state and local governments' budget(s) and/or fiscal reports?

Benchmark: (A)—All. Requires full ex-ante and timely ex-post reporting of all donor-funded activities.

Assessment: (A)—All. **This benchmark is met.** All donor funds are included ex-ante and ex-post in the central government budget, which incorporates lower levels of government. In-kind assistance is also incorporated into the budget documents.

The budget documentation systematically identifies approved donor funds (both loans and grants) for capital projects. Moreover, these inflows are considered to be formally approved as part of the Budget Estimates.¹⁶ No donor funds were found to be incorporated into the recurrent budget, although non-capital expenditure is regularly included in donor capital projects. The capital budget has more the characteristics of a development budget than a pure capital goods budget.

New inflows (additions that occur during the financial year) are included as part of the submissions to Parliament for supplementary approvals. Volume 1 of the Budget Statements' "Estimates of the Public Expenditure Sector" presented to the National Assembly includes a summary of total estimated capital expenditure including that to be funded by donors and local agencies. Volume 3 of these statements contains details by agency and project. Some donor in-kind assistance notably project PL 480, US Food Aid, is also provided to Guyana, and its value is reflected fully in budget documents.

¹⁶ There have been incidental cases of donor loans not being included into the Budget Documents, such as the World Bank PSTAC loan. Even then such an omission is usually for the first year of the loan only.

Indicator 5 ~ Classification

Question: *What types of classification apply to the budget and budget expenditures?*

Benchmark: (B)—*Budget expenditures are classified on an administrative, economic, and detailed functional or programmatic basis.*

Assessment: (B)—*Administrative, economic and programmatic classifications of the budget have been developed, while a functional classification will be added to the IFMAS this year. **The benchmark has been met.** Considerable progress has been made with introducing a programmatic budget classification for the recurrent budget since the last HIPC assessment through the work of the GEMP project. The programmatic structure still needs to be expanded to the capital budget, while the capital budget also requires a better economic subclassification.*

Recurrent expenditure is presently classified by administrative, economic and program type, with the program structure going through subprograms to the activity level. Some coding and other changes to the economic classification structure were made in 2003 for the 2004 Budget as part of the introduction of IFMAS. The Chart of Accounts (based on the IFMAS Freebalance package) allows for individual recurrent expenditure transactions to be coded by function but this has not yet been activated. Classification in accordance with the GFS-2001 is presently carried out using bridging tables.

The basic presentation of the government budget is by agency and then by program structure. There are no agency overarching programs. Work done on developing a programmatic budget structure for the recurrent budget of line ministries and agencies has been impressive. A goal orientation and a hierarchy of programs, sub-programs and activities has been established. Nevertheless, organizational-type ‘programs’ still exist. Programs of some ministries, as for example Education, group all their educational activities in one program, providing for very heterogeneous outputs. For a number of ministries and agencies the budget structure will have to be further refined in the coming years. The MOF rightly sees the development of the program budget structure as a work in progress.

The present agency/program format is also the basis for providing, in a separate budget document, nonfinancial information, i.e. details on program objectives, components, targets and achievements. This will in the medium-term enable systematic linking of programs to performance information. The presentation of the nonfinancial information should, in view of the mission, in future be presented together with relevant revenue and expenditure details including an overall summary of the budget by program. This will be an important step in connecting the consumption of resources (cost) with program outputs (and performance measures).

Capital expenditure is presently classified in the budget only according to agency and project. The chart of accounts allows for administrative, economic and functional classification of capital projects but this capability is not fully utilized by the authorities. The economic classification of the capital budget is very rudimentary; it is not used in the budget

but only for accounting purposes, and more worrisome, has not been integrated with the economic classification of the recurrent budget. Capital expenditure can relatively easily be linked to the recurrent program structure, although this is not done at present. Although the decision-making process for capital expenditure is still mostly separate, the preparation processes have now been linked to some extent. A next step toward full integration of capital and recurrent expenditure would be the joint presentation of capital and recurrent components of programs and possibly subprograms in budget documents. The authorities demonstrated to the mission that this could be quite easily done and agreed to present next year's budget in this fashion.

The capability of the present chart of accounts (and the IFMAS) needs to be fully utilized. Notwithstanding that considerable progress has been made with recurrent expenditure, much work remains to be completed for capital expenditure. The functional classification needs to be mapped to the budget line items. This is scheduled to be done later this year as one of the last deliverables of the GEMP project.

Action Plan

Short-term measures

- An improved economic classification should be developed for capital expenditure for use in FY2005.
- The programs in the recurrent budget side should be jointly presented with the projects in the capital budget.
- The financial presentation of agency/program combination should be integrated with the presentation of nonfinancial information.
- Further refinement of program structure through further delinking from administrative structure and alignment with policy goals.

Medium-term measures

- The capacity of the Chart of Accounts should be progressively activated.
- Full alignment of the Chart of Accounts with the GFS (2001) should be further pursued.
- Full integration of the capital and recurrent budgets. This would imply joint decision-making on capital and recurrent expenditure.
- Gradual introduction of performance information linked to programs, to inform decisions about budget priorities and allocations.

Indicator 6 ~ Identification of poverty-reducing spending

Question: *What is the principal means for tracking poverty-reducing spending?*

Benchmark: (A)—*Poverty-reducing expenditures are clearly identified and tracking uses existing budgetary or treasury accounting classification system.*

Assessment: (A)—*This benchmark is met. Ex-ante and ex-post poverty related expenditures are tagged within the existing classification and these are reflected in internal reporting.*

Guyana has been working with clearly defined poverty spending definitions, which the MOF is able to track effectively. The tracking is possible because poverty spending is defined at the budget line item level. With the new IFMAS, the production of poverty spending reports will require even less effort. The definition of poverty spending was recently amended by the authorities based on a study by a World Bank consultant in 2003. The definition under the original HIPC process included initially only spending, both capital and recurrent, and both central and local, on Education, Health and Housing & Water, along with a very few specific poverty alleviation programs. For the enhanced HIPC, the government widened the scope of the poverty definition by introducing new programs in the above-named sectors and also defining projects and activities outside these sectors as poverty reducing, for example Civil Service Reform programs. The 2003 amendment again added a substantial number of mainly capital projects and institutional reform programs to the definition. The two subsequent expansions have widened the scope of poverty spending considerably and has complicated historical tracking.

Poverty spending, as defined, cannot be used for other purposes, without recourse to supplementaries although under-spending is always possible. Poverty spending on the recurrent expenditure side is mainly grouped by programs and at the capital level by projects and reform programs. Line ministries have not been, and are not allowed to vire at the program level. Table 6 provides information on the development and sectoral distribution of poverty spending in Guyana. **The definition of what constitutes pro-poor spending may be on the high side in Guyana as the budgets of the ministries of health, education, and housing and water are included in their entirety.** The mission has not discussed the 2003 additions to the definition of poverty spending in detail, but the provided summary explanation per project/program seem legitimate. The real question mark about the present poverty-spending definition is that no attempt has been made to delineate poverty spending in the mentioned social ministries from their spending for the general population. Poverty delineation does seem to be a tool used for focusing social policy, although on the overall social expenditure has been targeted to increase. The argument used by some counterparts that all Guyana citizens are poor is not convincing as in that case all public expenditure could be characterized as pro-poor expenditure. More relevant guidance could be given, in view of

the mission, by the fact that roughly 35 percent of the population is defined as being under the poverty level¹⁷, and that this group is over-represented in the noncoastal region.

Although Guyana does not have a functional classification, the developed program budget structure does provide opportunity for further delineation of poverty spending.

This could be done along the following lines. The ministry of education has grouped all its education delivery in one program. As indicated under Indicator 5 such a wide ranging program should be divided into more programs. A tertiary education program, but possibly also other educational programs, should be screened to what extent they target the poorest 35 percent of the population. If the target group of these programs is not significantly different than the general population, then such programs should be counted for only 35 percent of its value as being poverty reducing spending.. If a significant under-representation of the poor is identified, than the program should not be identified as pro-poor at all. Another option would be to weigh spending according to the regional allocation of programs and projects. The IFMAS allows identification of spending by the regional administrations, while line ministries have information of the regional distribution of their spending. Given regional income distributions poverty spending could be scaled by the relative poverty incidence in the various regions.

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The authorities have argued that general spending programs are necessary for poverty reduction and that the PRS validates qualifying thematic spending as pro-poor. The mission fully agrees with these positions, but this does not mean that scaling expenditure by how well the poor are targeted does not provide valuable information for PRS monitoring and implementation.

A more focused poverty spending definition would need be developed and used in addition to the present indicator. The more focused definition would give more information to focus the PRS on specified target group or region.

In addition to input indicators, more focused performance indicators should be developed to guide poverty spending. At present outcome, output and throughput indicators are mainly provided for the national level. The ministries of Health and Education have indicated that they could produce a variety of throughput and outcome indicators for the various regions. This kind of tracking would allow government to track relative effort levels for poor regions versus those for richer regions. It would also provide guidance on relative needs by region given societal outcomes. The IDB has recently signed a five million dollar social indicator project with the Statistical Office. This should help enable government to enhance its reporting on outcome indicators.

¹⁷ The poverty incidence of 35 percent is for 1999 based on a national poverty line of US\$1.40 a day.

Table 6. Guyana: Central Government Spending by Sector

Table *: Guyana: Central Government Poverty Spending by Sector							Actual	Budget
	1997	1998	1999	2000	2001	2002	2003	2004
(In percent of GDP)								
HIPC related spending	6.9	9.0	10.8	13.8	14.7	15.3	13.6	13.7
Social sector spending	13.7	14.0	15.5	18.4	19.1	18.5	17.1	18.0
Current	5.4	7.5	9.5	11.3	11.9	12.9	11.5	11.6
Personal emoluments	4.2	3.9	5.5	5.5	5.7	6.2	6.0	6.0
Education	2.6	2.8	3.6	3.9	4.0	4.5	4.4	4.4
Health	1.6	1.0	2.0	1.6	1.7	1.7	1.6	1.6
Other	1.2	3.6	3.9	5.8	6.2	6.7	5.5	5.6
Education	0.2	1.4	1.5	1.6	2.0	2.3	2.4	2.6
Health	0.8	1.6	1.8	1.9	1.7	2.2	2.2	2.1
Poverty alleviation 1/	0.2	0.6	0.6	2.3	2.5	2.2	0.9	0.9
Capital	8.3	6.5	6.0	7.1	7.3	5.6	5.6	6.4
Education	1.2	1.3	1.1	2.3	2.7	2.2	1.3	1.5
Health	0.4	0.1	0.3	0.2	0.1	0.2	0.8	0.6
Poverty alleviation 1/	6.8	5.0	4.7	4.6	4.5	3.2	3.5	4.3
Memorandum items:								
Total social spending 2/	15.2	15.6	17.0	20.6	20.7	20.9	21.4	20.2
<i>Of which</i>								
Housing and water	1.5	1.6	1.5	1.9	1.6	1.6	3.2	2.1
(Current) 3/	0.7	0.4	0.6	0.5	0.4	0.6	0.7	0.4
Personal emoluments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.7	0.4	0.6	0.5	0.4	0.6	0.7	0.4
Capital	0.8	1.2	0.9	1.4	1.2	1.0	2.5	1.7
Public service reform								
(Current) 3/	0.0	0.0	0.0	0.3	0.0	0.8	1.1	0.1
Total current spending	6.0	8.0	10.1	12.1	12.3	14.3	13.3	12.1
Total capital spending	9.2	7.6	6.9	8.5	8.4	6.6	8.1	8.1
(As a percent of total social spending 2/; unless otherwise indicated)								
Personal emoluments	27.7	25.0	32.6	26.6	27.4	29.5	28.0	29.7
Education	17.1	18.3	21.1	18.8	19.1	21.6	20.5	21.8
Health	10.5	6.7	11.5	7.9	8.3	7.9	7.5	7.9
Nominal GDP at market prices								
(In billions of Guyana dollars)	106.7	108.0	120.7	130.0	133.4	137.8	143.8	153.3
HIPC savings	0.0	0.0	0.0	4.6	7.3	6.1	6.4	8.9
Non-interest expenditure (excl. Sk	35.6	33.7	31.3	38.5	39.3	38.5	41.8	44.8

Sources: Guyanese authorities; and Fund and World Bank staffs estimates and projections.

Deleted: The authorities have argued that general spending programs are necessary for poverty reduction and that the PRS validates qualifying thematic spending as pro-poor. The mission fully agrees with these positions, but this does not mean that scaling expenditure by how well the poor are targeted does not provide valuable information for PRS monitoring and implementation. ¶

A more focused poverty spending definition would need to be developed and used in addition to the present indicator. The more focused definition would give more information to focus the PRS on specified target group or region. ¶

In addition to input indicators, more focused performance indicators should be developed to guide poverty spending. At present outcome, output and throughput indicators are mainly provided for the national level. The ministries of Health and Education have indicated that they could produce a variety of throughput and outcome indicators for the various regions. This kind of tracking would allow government to track relative effort levels for poor regions versus those for richer regions. It would also provide guidance on relative needs by region given societal outcomes. The IDB has recently signed a five million dollar social indicator project with the Statistical Office. This should help enable government to enhance its reporting on outcome indicators.

Action Plan

Medium-term measures

- With donor support, commission a study to develop more focused poverty definitions, which can provide additional guidance to policy development and implementation.
- Develop regional and poverty incidence related workload, output and outcome indicators through line ministries and the Statistical Office.

Indicator 7 ~ Integration of medium-term forecasts.

Question: *How would you describe the application of the out-year estimates (medium-term) for spending?*

Benchmark: *(A)—Multi-year expenditure projections are integrated into the budget formulation process.*

Assessment: *(B)—This benchmark is not met. Projections exist, but are not integrated into the budget formulation cycle.*

Currently a bottom-up, multi-year budget is not prepared. There are multi-year, top-down estimates prepared in cooperation with the IMF, but these are at a reasonably aggregated level. Also in various cases, for example for poverty spending, sectoral forecasts are made corresponding approximately to the agency level. Initiatives have been taken to even prepare multi-year forecasts at the program level. These medium-term projections are used to guide the development of the one-year budget. The budget documents do not contain any forecasts beyond the new budget year.

The new FMAA requires that as from FY2005 a “medium-term domestic and international outlook” is incorporated in the budget documents. There is a progressively substantial way of meeting these requirements. The first phase is what might be called the “top down” approach that presents sectoral forecast using the multi-year framework developed with the IMF. These sectoral forecasts could be narrowed down to the agency level (in the case of larger agencies) and thus establish (indicative) agency program planning limits for the three years beyond the budget. These indicative spending limits should be presented in the annual budget and inform the National Assembly on the overall direction of government expenditure.

The approach in the second phase becomes “bottom up” and requires that agencies, as an extension to their usual budget submission, present estimates for the three years beyond the budget year. Initially very simple forecasting rules could be used. Recurrent expenditure would be a simple extension of the previous budget year’s expenditure. Approved capital will require a project by project projection of estimated requirements. Having an agency ‘unchanged policy’ baseline will guide the screening of new proposals and

the approved program. New unapproved requirements, both recurrent and capital, will require individual costing, justification and presentation.

To implement full “bottom up” multi-year term budgeting should be considered a substantial change process both for the MOF and line ministries, and may take a number of years to roll out. In addition to developing a forward costing methodology, line ministry staff needs to be trained in the new requirements. The new multi-year format is likely to require considerable alteration to existing budget presentation formats and collection mechanisms including those that are computer based. The expectation is that the new budget preparation module, planned to be added to the IFMAS in June 2004, will accommodate requirements to collect, summarize and present estimates data in the new format. However, this module is still to be acquired, configured and tested. Having the IT tools will just be one of the conditions for developing multi-year budgeting. A pilot approach toward the full roll-out of medium-term budgeting would be advisable, starting with a limited number of line ministries. Graduation of medium-term budgeting toward a full medium-term expenditure framework (MTEF), incorporating medium-term budgetary decision-making should be considered as a medium- to long-term objective of government.

Action Plan

Short-term measures

- Develop a medium-term fiscal outlook to be included in budget documents on the basis of multiyear budget projections at the sectoral/agency level (top down).
- Resolve when to go from medium-term outlook to a multi-year bottom-up budget.
- Develop rules for costing and forecasting of program expenditure to prepare roll-out of medium-term budgeting.

Medium-term measures

- Develop a macro and fiscal forecasting capacity to feed into a medium-term “bottom-up” budget development by line ministries.
- Prepare roll-out of medium-term budgeting methodology through training and preparation of manual. Implement medium-term budgeting through a phased, pilot approach.
- In the medium- to long-term develop a medium-term expenditure framework requiring facilitating medium-term strategic decisions by Cabinet within a forecasted resource envelope. Such a MTEF will fully integrate the medium-term economic framework and the work that has been and is being done to further refine and amend program budgeting.

IV. BUDGET EXECUTION

Indicator 8 ~ Evidence of budget execution problems – Arrears

Question: *What do you estimate as the level of the stock of expenditure arrears at the end of the last financial year?*

Benchmark: (A)—*Very few or none. Small stock of expenditure arrears, with little accumulation of arrears over the previous year.*

Assessment: (A)—*Aside from some resolved arrears that arose, as part of the process of introducing the new IFMAS, no systemic arrears were able to be identified. The benchmark is met.*

There is anecdotal evidence that arrears have occurred in the last six months because of “teething problems” and consequent bottlenecks associated with the start-up of the IFMAS. However, the GEMP project manager and the accountant general have indicated that these problems have been largely overcome with additional IFMAS terminals becoming operational in some ministries and changes in procedures. There is no evidence of systematic end-of-year arrears. In-year, intra-public sector arrears do occur to systematically towards electricity and water companies. These, however, usually seem to be cleared up before the end of the fiscal year.

Under the manual accounting systems still in use for donor projects and other specific purposes, no arrears have been identified.¹⁸ A worrying aspect, however, is that these systems do not use instruments such as invoice registers to monitor and control arrears. For monitoring and control of arrears, reliance is instead placed on correct Accountability Officer reporting and on suppliers making known their dissatisfaction with payment delays. There was no evidence of the use of promissory notes.

The new IFMAS allows monitoring and reporting on arrears. The new system’s basic functionality in transaction processing, accounting and reporting is fully functional now. One of the features of the system is the capability to identify and report invoice dates, when invoices were received and when payments were made. However at this stage, such reports are not prepared and presented. Arrears could potentially arise because of erratic cash rationing and excessive resort to budget supplementaries, and where agencies are not able to reasonably anticipate cash available to them during the financial year. Cash releases are satisfactorily controlled by the Budget Department. They are based on agency quarterly forecasts of their cash requirements and cash is released monthly generally according to the agreed quarterly limit. The number of supplementaries¹⁹ was 36 in 2001, 44 in 2002 and

¹⁸ The vast majority of government payments are now processed through the IFMAS, including reportedly not only those made from the Consolidated Fund, but also from other government accounts.

¹⁹ Corrected for non-appropriation transactions and self-canceling item.

21 in 2003. The performance in 2003 reflects a general tightening of budget discipline and there was no evidence that this has led to arrears.

In both the manual accounting system and the new IFMAS, commitments are limited to the unencumbered balance of available cash for the year (FMAA Article 30). Article 2 of the FMAA requires that commitments reflect moneys that are liable to be paid by the government as a result, among other things, of a legally enforceable contract. One implication that could be drawn from this is that commitments for contracts that have expenditure in years beyond the budget year should not be recorded in the accounting system. The nonrecording of such commitments at the time has the potential to undermine the discipline of such recording and to risk them not being recorded at all. This apparent anomaly needs to be reviewed and the commitment control requirements and approvals for all commitments to be clarified otherwise there is a risk that arrears will be created through over-commitment.

The introduction of the IFMAS will significantly facilitate the control of expenditure arrears particular when the purchasing module becomes fully functional. The purchasing module has the potential to ensure that purchase orders are not raised where there are not sufficient funds thereby automatically blocking over-commitment and arrears. In the meantime, it is essential that the IFMAS be used to control and report commitments and arrears. Such management reports should be developed and produced as soon as practicable. For the manual system, consideration should be given to the agencies concerned implementing an invoice registration system to facilitate the control and reporting of arrears.

Supplementaries and the failure to provide predictable cash releases to agencies during the financial year are a significant potential cause of arrears. Consequently, the number and level of individual supplementaries in particular, although declining, needs to be closely monitored.

Action Plan

Short-term measures

- Development and production of at least monthly reports from the IFMAS of bills not paid on time. It is desirable that these reports always go to the minister and to cabinet if significant problems develop. The IFMAS should also continuously (daily) report invoices that are unpaid one month after receipt (although this does not necessarily make them arrears).
- The present commitment control arrangement should be reviewed to ensure that all commitments are recorded when they occur irrespective of when expenditure is expected and that approval of new commitments that have expenditure in future years take proper account of those funds likely to be available in those years.

Medium-term measures

- That the IFMAS purchasing module be introduced at the earliest practicable time.

Indicator 9 ~ Effectiveness of the internal control system

Question: *How would you describe the internal control system?*

Benchmark: (A)—*Internal control systems are effective.*

Assessment: (B)—*Internal controls are present and have recently been strengthened by the IFMAS introduction and stronger accountability provisions in the new FMAA. However, existing capacity of internal auditors and their work processes are weak. There is no oversight or setting of standards within central government. The benchmark is not met.*

Until recently, the accounting system has largely been decentralized with each agency being responsible for payment of its claims within the limits of cash allocated at the line item. Accounting Officers were responsible for ensuring the effectiveness of accounting controls and for the timeliness and accuracy of expenditure and other financial reports submitted to the ministry of finance. Under the new FMAA, Permanent Secretaries have been designated as responsible primary accounting officer for their department.

Agency audit units report to the Permanent Secretaries but internal capacity is limited.

The work programs of internal auditors are approved by the Permanent Secretary; however, the number of internal auditors is small. Moreover, there is no direct central, technical oversight of the internal auditing process, except through the work of auditor general's staff. Such centralized oversight and technical support might be expected, consistent with his responsibilities for the overall government accounting system, to come from the Permanent Secretary, Ministry of Finance. Possibly this oversight function could be delegated to the accountant general. The Inspectorate Section in the accountant general's office would normally be the vehicle for this oversight, however, although established it has not been staffed due to chronic staff shortages and other priorities.

The introduction the IFMAS at the beginning of 2004 has created a new environment where control systems are largely computer-based and centralized for those agencies serviced by the system. The IFMAS makes payments from the central consolidated bank account, which now incorporates requirements previously serviced by some 200 plus accounts that have been closed down. Multiple bank accounts and lack of central oversight of collections to, and payment from those accounts increased the risk of fraud and misuse of the public funds in those accounts.

Approximately 250 agency accounts still remain open outside the Consolidated Fund.

The justification for the continuation of some of these accounts lies in agency imprest funds and some situations where personal emoluments are still paid in cash e.g. the military and police. However, a significant number of accounts seem to fall outside the essential and or unavoidable criteria for separate accounts, including any counterpart funding project accounts possibly required by donors. Consultations with donor representatives indicated that they did not require separate bank accounts for project counterpart funds.

In a fully computerized environment such as IFMAS, significant risk exists from unauthorized persons gaining access to the system. While a system has been put in place to control, for example, the issue of access passwords, it appears that further work is required in this area. Moreover, because the accountant general, on behalf of the Permanent Secretary Finance, is responsible for the effectiveness and integrity of the overall accounting system, it is essential that he implement a comprehensive system that ensures his oversight and control of all access, including that by contracted computer technical personal, to ensure changes are not made to the system without his/her formal approval.

For the manual and decentralized collection and payment systems presently still outside the ambit of IFMAS, it is important that some meaningful level of central oversight occur. Traditional tools for undertaking this have been through the establishment of a Directorate or similar of Internal Audit responsible to the Permanent Secretary, Ministry of Finance or through the use of accountant general inspectors. The latter option would require less institution building but would stretch already thin resource of the accountant general's office.

Efforts should be made to further activate the internal audit oversight and standards setting function. Consideration could be given, in the medium-term, to establishing a Directorate of Internal Audit in the MOF, responsible for the MOF's own internal audit process and agency wide internal audit oversight. For the medium-term, it would be better not to have the accountant general's office in the dual role of examining standards applied in the agencies and providing onsite training where needed.

Action Plan

Short-term measures

- Full action to identify and close down bank accounts that are no longer required as a result of the introduction of the IFMAS.
- Activation of the internal audit oversight and standards function using the existing inspection unit within the accountant general's office.
- The development of an appropriate suite of IFMAS reports to enable systematic monitoring of transactions.

Medium-term measures

- Consideration be given to instating a Director of Internal Audit within the MOF to provide oversight and standards for internal audit in central government.

Indicator 10 ~ Tracking surveys are in use

Question: *Is internal control supplemented by public expenditure tracking surveys (PETS) that follow funds to the ultimate service provider or beneficiary?*

Benchmark: (B)—*Tracking surveys are used, where necessary, to supplement internal control, but may not yet be a regular feature of the PEM system.*

Assessment: (C)—*Public expenditure tracking surveys have not yet been used. **The benchmark has not been met.** Although not necessary for tracking poverty-spending inputs, PETS could be useful in evaluating the impact and appropriate targeting of pro-poor expenditure.*

Performance-tracking surveys estimate the amount of public money that is actually delivered through the budget system to front line service delivery units and its impact. Such survey's would compliment and supplement identification of information provided through the IFMAS using the new chart of accounts that was required for that system and to meet program budgeting requirements. Potential also exists for the auditor general, as part of his move toward performance auditing, to use PETS to aid his analysis of the performance of individual programs.

PETS, however, are expensive to conduct and it is therefore important that when they are used that they are focused on areas of high return to the government's agenda. In the short to medium-term, they will inevitably, because of their cost and some cases complexity, require donor support. The EC has indicated that in a very limited number of cases it will now require PETS-type reviews. PETS should not replace the gradual roll-out of performance measurement, monitoring and targeting that the MOF sees as the final development stage of its program budgeting development, and which would cover the whole of central government.

Action Plan

Medium-term measures

- Tracking survey requirements be identified and prioritized together with possible donor support to conduct such surveys in specific cases.

Indicator 11 ~ Quality of fiscal information

Question: *Is there regular reconciliation of all government bank accounts (those held in the central bank and the commercial banks) with the government's accounting records?*

Benchmark: *(A)—Satisfactory reconciliation of fiscal and banking records is undertaken routinely.*

Assessment: *(C)—Reconciliation of government accounts and bank account balances occurs only sporadically. **The benchmark is not met.** An add-on package to the new IFMAS to be introduced within the next few months will make bank reconciliation for a large part of government transaction a standard feature, impacting this indicator upward.*

Under the decentralized manual accounting system, cashbooks were, according to the auditor general, often not maintained and bank reconciliation was not done.²⁰ Regular and systematic bank reconciliation is a basic control requirement and the absence of such reconciliation casts doubt on the veracity of government accounting and the control of government finances.

²⁰ For example, the auditor general in his report for the fiscal year ended December 31, 2002, reports that reconciliation of the two Consolidated Fund Accounts (Current and Capital) has not taken place since 1988 (par. 20). He also reported that the "Consolidated Fund continued to be overdrawn, due mainly to the failure to reconcile the various government accounts and to pay over sums due to the Fund," (Paragraph 24).

The new IFMAS, and its associated centralization of the payment and receipts and the ongoing rationalization of bank accounts will allow regular reconciliation of government accounts with bank balances. However, after more than five months of IFMAS operation the first reconciliation (for January 2004) of the consolidated account is now expected to be completed only by end June 2004. This reconciliation is based on a new start from the beginning of 2004, that is accepting the recorded balance at the beginning of the year as a given. Under the circumstances, this seems a reasonable and practicable approach.

It is expected that in June/July 2004 a new IFMAS bank reconciliation module will be introduced. This module is expected to facilitate bank reconciliation although this in itself will not guarantee full reconciliation. Reconciliation of the accounts outside the consolidated central account that still are not covered by IFMAS remains problematic.

Sufficient resources should be directed at getting reconciliation up-to-date and once up-to-date, ensuring that regular reconciliation is enforced. The new module should help this process by automatically identifying common IFMAS and bank entries. However, it will not actually do the reconciliation. A key objective must be to ensure that by end of 2004, all IFMAS transactions for the year are reconciled with bank records.

The program of rationalizing bank accounts and closing as many as practicable should continue to be vigorously pursued. Enforcing the maintenance of cashbooks and the timely provision of monthly reconciliation statements to the accountant general should be a condition of any remaining decentralized accounts remaining open. The accountant general should also be required to report to the minister of finance each month on any accounts that do not comply. It is suggested that a copy of this report also be forwarded to the auditor general.

Action Plan

Short-term measures

- The present program of centralizing government accounting through the IFMAS should be continued to be vigorously pursued with the objective of reducing the number of bank accounts to a practicable minimum.
- Systems should be activated/put in place to ensure that accounting officers in government agencies implement without delay, measures to maintain cash books for all accounts outside the central account and that they report, five days after the end of each month, details of bank reconciliations accompanied by the relevant bank statements. Failure to comply should invoke sanctions including withholding monthly cash release.
- As directed by the Permanent Secretary Finance, the accountant general should prepare a regular report to the minister of finance on the state of reconciliation of accounting records. This report should be updated monthly and provide the basis for high-level management monitoring, and as necessary, the institution of corrective

action. This report should include all accounts for which the accountant general/ministry of finance is responsible.

- Adequate resources in the accountant general's office should be dedicated to the task of reconciling the central consolidated account and to preparing monthly returns to the minister for all accounts.

Medium-term measures

- That a system of comprehensive policing be put in place to ensure that all accounts are reconciled at least bimonthly if not more frequently and that sanctions are automatically implemented against Accounting Officers who fail to comply.

V. BUDGET REPORTING

Indicator 12 ~ Regularity of timely internal fiscal reporting

Question: *When are budget-tracking reports from line ministries, other spending units and the treasury received by the central financial authority?*

Benchmark: (B)—*Internal budget reports are received within four weeks of the end of the relevant period.*

Assessment: (A)—*Internal budget reports covering the Consolidated Fund can be produced two to three days after the end of the relevant period. Reporting on transactions through remaining project and imprest accounts is provided to the MOF within two weeks. This benchmark is exceeded.*

Guyana's IFMAS has been 'switched on' at the beginning of this year and has, after some initial teething problems proven to be very effective in producing fiscal reports. End of month procedures should possibly disappear completely. Fiscal reports on spending agencies and consolidated reports can be produced internally by MOF and to varying extent by other users. A very limited number of regions have not been connected yet to the IFMAS and are still sending reports based on their manual systems. Reports from these districts are received by the ministry within seven days and two weeks after the end of the month. All budget users are reportedly still maintaining their manual systems at present. Interviewed line ministries indicated that they expected manual accounting to be discontinued by June or July of this year.

Transactions through remaining accounts outside the Consolidated Fund are reported on through manual accounts. These reports are submitted to the MOF usually within one week in the case of most agencies. The number of transactions processed through these accounts is a fraction of that going through the Consolidated Fund.

Reports can be configured in various economic, administrative, and programmatic presentations. The GEMP project at present still foresees delivery of, and training for Budget Office staff in using a report design tool, the COGNOS package. The mission is of the view that provided support may, at as the GEMP project draws to a close, be too limited to guarantee full use of the package for data analysis and more specialized reporting.

The mission views the ownership and management capacity of the IFMAS by the accountant general's office as insufficient. The IFMAS component of the GEMP project office is planned to be transferred to the ministry in August of this year. However, although the IFMAS has now been rolled out to almost all agencies and regions, users still use the GEMP support team extensively for troubleshooting and queries, not all system functionality has yet been switched on, and, perhaps most importantly, the accountant general's office (AGO) has not been restructured in anticipation of taking over the daily operation of the IFMAS. Moreover the AGO staffing levels are at 50 percent of its establishment levels, indicating serious capacity constraints.

A full rollout of workstations to agencies, further training of staff and continued troubleshooting and maintenance capacity are critical to ensure that the IFMAS system is maintained over the next year. The full rollout requires some extra hardware inputs to be completed²¹, while line ministries have also indicated that more of their accounting staff will need to be trained for use of the system. Most critical is continued support for day-to-day running of the system both for the AGO and budget users. For the additional functionality that GEMP still intends to provide for the IFMAS—the bank reconciliation, the multi-year budgeting and report design packages—the suggested remaining support period that is now planned, seems much too short. Although donor support should never be indefinite, the mission is of the view that the IFMAS component of GEMP should be extended. The actual implementation period of the Free-Balance package has been quite short, relative to AGO capacity and implementation paths at other finance ministries around the world. It should be realized that the AGO has had no previous experience working in an automated environment.

The new IDB Fiscal and Financial Management Program (FFMP) does foresee in facilitating the transition to IFMAS support by IDB consultants. However, it is the view of the mission that a sizeable time gap between the ending of CIDA's GEMP project and IDB support is likely to occur. The mission recommends that the present IFMAS support team or one constituted by Free-Balance consultants be maintained during the transition from GEMP to IDB support. The need to protect continuity at this critical juncture of the project is very high. It should be recognized that even if all administrative and tendering hurdles for the new IDB project can be taken with some speed, mobilization of new consultancy resources could take a considerable amount of time.

²¹ At present a small number of agencies in Georgetown still use the data entering facilities at the accountant general's office, which was initially used as a controlled learning by doing facility.

Action Plan

It should be an absolute priority for the authorities and donors to maintain adequate support for IFMAS rollout. The success of this project will have important benefits for control, accuracy, timeliness and analysis of fiscal data. It would be good if the authorities, CIDA and IDB form a transition supervisory group to fully facilitate the smooth transition of the further IFMAS development under the IDB's FFMP.

A certain overlap, i.e. a joint presence, of the two projects would be advisable. Possibly CIDA could utilize some contingency funding for retaining the present consultancy team, while IDB money should be made available relatively soon for contracting of individual consultants who do not need to be tendered. The authorities may facilitate the process by guaranteeing consultancy contracts pending amendment to project planning by CIDA and IDB for additional spending or for accommodating potential administrative delays.

Short-term measures

- Retain the present GEMP IFMAS project as presently constituted for an additional 9-12 months for continued trouble-shooting, maintenance and transfer to AGO.
- Complete planned full IFMAS rollout to all central government agencies as soon as possible, with provision of additional hardware where needed and training of extra end users at line ministry level.
- Bring forward the foreseen restructuring and restaffing of the AGO to accommodate new IFMAS functionality and work processes.

Indicator 13 ~ Regular fiscal reports track poverty reducing spending

Question: *What in-year reports are published for tracking budget expenditure by function?*

Benchmark: *(A)—Good-quality classification of poverty reducing spending is reflected in the in-year budget reports.*

Assessment: *(A)—This benchmark has been met. Internal monitoring reports of poverty related spending are made on a regular basis at a defined programmatic and capital item level. Guyana can be said to have a Virtual Poverty Fund in the sense that budget line items are identified as being poverty reducing spending or not. Internal reports are not published and not always updated monthly.*

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While a functional classification module for the IFMAS still needs to be implemented in Guyana, the present programmatic and project budget does provide a good alternative for tracking poverty spending. As discussed under Indicator 6, the present definition of poverty spending identifies relevant areas of poverty spending in some detail, but especially for recurrent expenditure, the definition should be further delineated. Identification of

poverty spending by line ministry program, project and individual line items is possible through tagging to the line item level provided by the IFMAS. Programs and capital projects can be grouped in the first level functional classification for PRSP purposes. Presentation of spending channeled through regional administrations is also possible, but not regularly presented.

The ministry of finance and the Policy Coordination and Program Management Unit (PCPMU) at the Office of the President monitor poverty spending.

Poverty spending is not identified as such in the budget or final accounts. The information is provided for analysis to Bank and Fund on a regular basis, although the time-lag is quite significant and the intermittent period of non-reporting has been extensive up to this year. The provided information is also used in Guyana's reporting on PRS implementation. During the mission, a report on PRS implementation including an overview of poverty spending over the past two years was presented to donors. This report is a requirement of the PRSP process, but is only the second of its kind. Some donors have expressed dissatisfaction with the lack of regular reporting on poverty data. They would also like to see more in-depth analysis and benchmarking against PRSP targets.

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The relevance and use for budget allocation could increase by including poverty data and analysis in budget documentation. The new FMAA prescribes mid-year reporting on budget execution. In addition to the budgetary outturn against the budget, a presentation of poverty spending and accompanying analysis could also be incorporated in the mid-year report. This reporting could be a condensed version of the reporting on PRS implementation. The internal reporting of poverty spending should not be restricted to requests of IMF or World Bank requests but done on a monthly basis. With the new IFMAS system, this should not be a complicated exercise. Internal analysis could take place on a quarterly basis. The authorities should consider sharing this information with the donor community.

Action Plan

Short-term measures

- Incorporate poverty expenditure data and analysis gradually in budget documents including the annual budget, final accounts and mid-year budget execution report so that the link from PRS to budget can more easily be made.
- Monitor poverty spending and report internally on a regular basis.
- The suggested integrated presentation of recurrent and capital expenditure under Benchmark 5 should lead to an integrated presentation of poverty expenditure.

Medium-term measures

- Provide regular information on poverty spending with analysis and benchmarking to the PRSP to domestic and international stakeholders.

Indicator 14 ~ Transactions are recorded in the accounts in a timely fashion.

Question: *What is the longest period between the end of the fiscal year and the routine booking of transactions?*

Benchmark: (A)—*Routine transactions are entered into the main accounting system(s) within two months after the end of the fiscal year.*

Assessment: (A)—*Routine transactions are normally not processed after the end of the fiscal year, although some deviation to this does occur, sometimes condoned by the MOF. This benchmark is met.*

Guyana's PEM system does not allow for booking of transactions after the closing of the fiscal year. Before the present IFMAS, however, line ministries, reportedly, in certain cases used the first weeks of the new year for booking transactions on not fully used budget lines of the previous year. The auditor general indicates in his 2002 annual report this is not allowed, but that it nevertheless happens and is sometimes even condoned by the MOF.

Guyana's accounting systems uses the rule "checks are cash". Issued checks at the end of the year are incorporated in the financial year even if the check is not cashed until the new year. This approach would warrant a latest date that outstanding checks could be booked to the past fiscal year. At present, this cut-off date is not really relevant, as bank reconciliation does not take place. When the planned two-weekly bank reconciliation of government accounts is introduced, a decision on the treatment of outstanding checks will have to be made.

Up to 2003, before the present IFMAS, there existed a risk of spending agencies bringing payments forward at the end of the year to fully utilize budget lines. Given weak internal controls, agencies could be writing checks at the end of the year for transactions that would actually be realized in the new fiscal year.

The new IFMAS will make both backward and forward booking of transactions impossible, unless condoned by the MOF. With the tight controls of the new IFMAS system and the introduction of regular bank reconciliation, it might be desirable to make the end-of-year rules somewhat more flexible. It can be legitimate to book expenditure to the previous year when the transaction should actually have been processed in the previous year, but it was not, due to administrative error. A period of two weeks might be appropriate for this purpose.

Although accounts are closed at the end of the year, it regularly takes more than the statutory limit of four months for many of the agencies and the accountant general to present their final accounts to the auditor general. This situation is very unsatisfactory and impacts the auditor general's ability to produce the audited final accounts of government

in a timely fashion. The problems with compiling final accounts before the IFMAS were obviously influenced by the large number of manually maintained accounts that were held at various agencies. At the accountant general's office, it is also an indication of institutional weaknesses and low staff staffing levels. The analysis below indicates that there has been a general improvement in providing final accounts to the auditor general's office. The introduction of the IFMAS should in the coming years expedite the presentation of central government's final accounts now that they are to a large extent processed through the Consolidated Fund.

Table 7. Financial Statements not presented to the auditor general's office within the statutory limit of four months

	2001	2002	2003
Accountant General*	10	10	9
Spending Agencies	103	35	24

*The accountant general is responsible for financial statements on ten public accounts

Action Plan

Short-term measures

- Design reasonable end-of-year procedure for IFMAS.

Medium-term measures

- Bring delivery of financial statements on all accounts of government to the auditor general within the statutory limit of four months.

Indicator 15 ~ Timeliness of audited financial information

Question: How soon after the end of the relevant year is the audit report on the annual accounts (either short form audit report accompanying the final accounts or as part of loi de reglement) presented to the public and/or the legislature?

Benchmark: (B)—An audited record of the financial outturn should be presented to the legislature within twelve months of the end of the fiscal year

Assessment: (B)—An audited record of the central government accounts has been submitted to Parliament within twelve months after the end of the fiscal year. ***The benchmark is met.***

The auditor general has presented audited final accounts within the 12-month benchmark, but not within the statutory limit of nine months. Substantial progress has been made by the AGO in presenting its annual report in time. Table 8 illustrates the progress made. The transgression of the statutory limit has been impacted to a large extent by the late provision of final accounts by the accountant general and the spending agencies. However,

the auditor general has indicated that his staffing levels are also substantially below establishment levels.

Table 8. Date of presentation of the auditor general's report²²

Year of Account	1998	1999	2000	2001	2002
	28 April 2000	17 November 2000	30 April 2002	31 October 2002	31 October 2003

The 2002 World Bank's CFAA²³ bestows praise on the quality of the auditor general's auditing work and this has been reiterated by various counterparts. The AGO is still more focused on transaction compliance rather than systems evaluation. In the coming years the systems evaluation should be become a more important part of the work agenda now that Permanent Secretaries have been made accountable for the accounting processes in their agencies.

The AGO has not been involved in development of the IFMAS, nor trained in auditing the system, which is of concern. The auditor general was not a member of the project steering committee, control rules have been developed without his input, and training of staff with respect to the IFMAS has not occurred. Staff of the AGO were trained in using the system as budget users, but now needs separate training in auditing the IFMAS, and plans have been developed to incorporate such training in an instructional strengthening project that the IDB is planned to start this year with the AGO.

The AGO is planning to start with performance auditing in the coming years and will receive donor support for this. While the mission would advise concentrating on financial audits in the present compliance environment, tentative steps could be made in the medium-term in this direction. Given Guyana's commitments in the HIPC process, introduction of performance audits could be considered first in the area of poverty spending.

The new Audit Act of 2003 will enhance the independence of the auditor general and increase the oversight role of the Public Accounts Committee (PAC). Although still appointed by the Executive, the AGO will be removed administratively from central government. The budget of the AGO will be reviewed in first instance by the PAC and then approved by the minister of finance. The PAC will be instrumental in directing the AGO's yearly work plan and approving its rules and procedures.

The new Audit Act still needs to come into force. Amongst others, rules, regulations and operating procedures still need consent from the PAC. The new Audit Act will require an

²² Since a Constitutional amendment in 2001, the accountant general presents its annual report to the Speaker of the National Assembly rather than the minister of finance.

²³ Country Financial Accountability Assessment.

organizational restructuring and restaffing of the AGO. The IDB has developed an extensive technical assistance project for strengthening the AGO over the next four years.

In a meeting with the PAC, parliamentarians from both sides of the political divide expressed concerns over follow-up by the Executive and the prosecution services to redress and where necessary penalize transgressions. There was tentative agreement in the committee that the new audit act signified an important improvement. There was criticism though of the slow implementation of legislation in the PEM field. Not only the Audit Act, but also the new FMAA and Procurement Act were noted in this respect. In addition, resources for the AGO and to some extent for the PAC itself were seen as inadequate.

Serious backlogs in the audit process still exist outside central government, namely at statutory bodies, local government and a number of public enterprises. This is due to the fact that final accounts are not being submitted to the AGO. Progress has been made in this field over recent years. The larger statutory bodies have made extensive efforts to redress the backlog. The authorities should make a concerted effort to communicate to Boards of statutory bodies that they should comply with end of year responsibilities. Under the new FMAA, all statutory bodies are explicitly required to present their final accounts to their respective minister within four and to the auditor general within six months after the end of the fiscal or calendar year.

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Action Plan

Short-term measures

- Bring into effect the new Audit Act
- Reorganize auditor general's office
- Train staff of auditor general's office in audit of the IFMAS

Medium-term measures

- Clear backlog of outstanding financial statements of statutory bodies, local government and public enterprise
- Strengthen capacity of PAC.

VI. PROCUREMENT

Indicator 16 ~ Efficiency and effectiveness of the public procurement system

Question: *To what degree does the public procurement system provide for efficient and effective use of public funds?*

Benchmark: (A)—*The procurement system promotes efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money.*

Assessment: (C)—***This benchmark is not met.*** *Although set for major improvement when the new Procurement Act comes into effect, the procurement system at present suffers from a weak legal framework, inadequate recourse to arbitration, administrative delays and evasion of existing regulations. This leads to inefficient use of public funds and contributes to sense of unwarranted discretion in public contracting.*

Tender procedures are still guided by regulations from 1954 despite enactment of new legislation. In 2002, a Procurement act was passed but this never came into force because the law was deemed not to include sufficient guarantees for a transparent, competitive and efficient tendering process. With the support of the World Bank, a new law was enacted in 2003. This new law has not yet come into force because underlying rules and regulations still need to be drafted, a new institutional framework has to be set up, and the minister of finance still needs to appoint the new Tender Board. See Box 1 for more details on the further implementation of this new law.

The present procurement process is channeled through ministerial and regional tender boards, and a central tender board presided over by the finance secretary. The present regulations do provide a framework for the tendering process. The existing tender boards also seem to have a wide representation, but mainly from within the civil service. Safeguards for an open and challengeable process are very limited and often not applied. Experts used are often from the civil service or from the ministry that is managing the tender. All tenders above 15 million G\$ need approval by Cabinet, taking relatively many tenders into the political realm.

The latest Country Procurement Assessment Review dates from 1999, but its description of the procurement process still seems applicable to some extent. The procurement process has shown sizeable administrative delays especially at the central level, although recently the MOF has been engaged in cleaning up the backlog of tender dossiers. Evasive tactics have been employed by agencies through contract splitting (to avoid the central tender board) and emergency awarding of contracts (for example for medicines). The auditor general who does the have the powers to audit tenders at his discretion has also noticed tender boards not following selection criteria, and ministries signing-off on awarded tenders without adequate inspection of goods delivered.

A striking weakness in the present procurement process is the lack of process information. To evaluate tendering standards, process indicators should be analyzed on the basis of well-kept records. Average duration of tendering process, number and volume of tendered projects, type of tender process initiated (open, restricted, emergency direct), rate of success in awarding a contract, times lowest price bidder was not awarded, satisfaction of beneficiary with contractors performance). Information like this should be available for internal management and oversight in the Executive, but should also be provided to the National Assembly on a regular basis.

Box 1. A new Procurement Act for Guyana

A new, much improved, Procurement Act was passed in July 2003 reflecting agreement reached between the authorities and the World Bank **on setting up a new institutional structure for public procurement.** The new law has not yet come into force for the following reasons: (a) the need to set up an independent **National Procurement and Tender Administration (NPTA)** and train staff at various levels, (b) operationalize the new legislation through rules and regulations, and (c) have a new Tender Board appointed by the minister. The new law, when in effect, will represent a major improvement over the previous procurement legislation and lead to a more transparent, competitive and efficient procurement process in Guyana. Some shortcomings remain, however, for example a very extended timeframe for the review of bidders' protests by an independent authority is still in the new law, which may detrimental to an effective process. The Bank has urged to limit this review period.

Deleted: institutional structure

Separate Legislation will establish an independent Public Procurement Commission (PPC) that will oversee the NPTA, which will be headed by a Board and supported by a Secretariat. Members of the PPC also still have to be appointed but this process has stalled due to a political crisis in the National Assembly, which is not specifically connected to this law. Although the NPTA will have a Secretariat, its precise functions and staffing are yet to be assessed. To make the Tender and Procurement Act effective, consultants financed under the ongoing World Bank Public Sector Technical Assistance Credit (PSTAC) are expected to start work on rules and regulations in June and a draft report should be ready by October 2004. To be fully operational, the PPC will need adequate technical assistance to develop reform policies, oversee their implementation, and monitor and evaluate their impact.

Deleted: The new Act

Deleted: a National Procurement and Tender Administration (

Deleted:)

Action Plan

Short-term measures

- Produce regulations for implementation of the new Procurement Act;
- Resolve political impasse on Tender Board appointments;
- Set up Public Procurement Commission and a National Procurement and Tender Administration;
- Train staff and experts in process and procedures of new act and regulations.

Medium-term measures

- Provide annual report on procurement process to National Assembly.

VII. RECOMMENDED ACTION PLAN FOR IMPROVING PUBLIC EXPENDITURE MANAGEMENT

This section proposes a prioritized action plan to strengthen PEM systems in Guyana.

This plan should be viewed in the context of actions underway and proposals by the government and the donors to continue to pursue PEM reform. The choice of actions is driven by the mission's assessment of weaknesses as identified by the indicator scoring, as well as identified gaps in donor support and existing capacity. In the tables following this section, we will present first in Table 9 an overview of the ongoing and planned technical assistance in the PEM field in Guyana, while in Table 10 progress made since the 2001 AAP is summarized. Table 11 finally presents the Action Plan containing the actions suggested throughout our assessment in a somewhat condensed form.

Table 10. Implementation Status of 2001 Actions to Strengthen Tracking of Poverty-Reducing Public Spending: Guyana

#	Actions ¹	Relates to Indicator ²	Timing (S/M) ³	Status (FI/II/NS)*	Date Achieved**	Comments***
Actions to strengthen budget formulation						
1	Reduce funding of government activities through extra-budgetary accounts	2	S	II		New legislative provisions relating to extra-budgetary funds enacted. Review of status of statutory bodies underway
2	Improve programmatic classification to better reflect functional rather than administrative categories	5	S	II		Substantial improvement made in defining program structure under GEMP III
3	Fully integrate the programmatic classification with the accounting and reporting process	5	M	II		Part of IFMAS development under GEMP III
4	Poverty-related expenditure to be clearly identified in the 2002 budget	6	S	FI	March '03	Identified at program, project and budget line item level, not presented in budget as such
5	Establish a projected resource envelope for the sectors covered in the PRSP	7	S	FI		
6	Develop MTEF	7	M	NS		Initial step to be taken in 2004 with support of EU and IDB.
N						
Actions to strengthen budget execution						
1	Develop and implement user requirements for a financial management information system	8	S	II		Part of IFMAS design and implementation; roll out in progress.
2	Develop an action plan for strengthening the AG's office	9	S	II		GEMP III and FFMP. Further analysis is desired.
3	Implement a clear internal audit function at the AG's office; recruit more qualified staff	9	M	NS		Still priority
4	Conduct Public Expenditure Tracking Surveys (PETS)	10	M	NS		Lack of genuine donor interest
5	Reduce lags in account reconciliation at key ministries	11	S	II		Still not practiced. Implementation of relevant module of IFMAS will promote use for Consolidated Fund
6	Enforce a policy of routine reconciliation of fiscal and banking data	11	M	II		See above.
N						
Actions to strengthen financial reporting						
1	Establish reporting by subprograms to reflect better functional rather than the administrative use of funds	13	M	II		Improvements made under GEMP III. Still on the agenda.
2	Ensure appropriate follow-up on findings of irregularities in the AG's report	15	M	NS		To be done with support of FFMP.

¹Actions reflect the descriptions held by FAD-PREM in the March 2003 Board Paper and should relate to the earlier action plans developed in prior AAPs.

²Show to which of the 16 indicators from the AAP the action chiefly relates.

³S=Short term action (within 12 months of action); M=medium term action.

* FI=fully implemented, II=Implementation initiated, NS=Not started

**Date achieved for FI reflects the action status in the March 2003 Board Paper.

*** Comments may explain any changes in the nature of proposed actions or changes to the timing of their implementation.

Table 11. Summary Action Plan to upgrade PEM capacity in Guyana

SHORT-TERM MEASURES (Within next 12 months)					MEDIUM-TERM MEASURES (12 months to 3 years)			
	No.*	Action **	Relates to indicator no.	TA Provider***	No.*	Action**	Relates to indicator no.	TA Provider** *
FORMULATION Comprehensiveness	1	Statutory body financial information to be included, with some detail, in Budget Statements and Final Accounts on a gross basis.	1		1	Review and optimize number of statutory bodies with input of IDB study	1	
	2	Improved provision of statutory bodies final accounts.	1 and 15		2	Revenues of statutory bodies with substantial net earnings to flow directly to Consolidated Fund	2	
	3	Improved ex ante reporting on the NIS.	1		3	Information on discretionary tax expenditure available in budget documents.	1	
Classification	4	Develop economic classification for capital budget.	5		4	Full capacity of existing chart of accounts (CoA) to be activated	5	
	5	Recurrent and capital to be presented together in budget documents.	5		5	Chart of Accounts to be aligned with GFS (2001)	5	
	6	Financial and nonfinancial information on agency/program presentation to be integrated.	5		6	Full integration of capital and recurrent budgets	5	
	7	Further 'deinstitutionalize' program structure.	5		7	Gradually introduce program performance information to inform budget prioritization and allocation decisions.		
					8	Commission study to develop more focused poverty definition	6	
					9	Develop regional and poverty incidence related workload, output and outcome indicators	6	
Projection	8	Develop fiscal outlook with multi year budget projections to sectoral/ agency level (top down).	7		10	Develop macro and fiscal forecasting capacity in support of medium-term budgeting.	7	
	9	Resolve when to introduce bottom up multi-year budgeting.	7		11	Prepare and implement medium-term budgeting	7	

	10	Develop rules for costing and forecasting of program expenditure.	7		12	Develop an MTEF.	7	
EXECUTION								
Internal Controls	11	Monthly arrears reports to minister of finance.	8	CIDA/IDB	13	Introduction of IFMAS purchasing module.	8	
	12	Daily arrears monitoring reports.	8	CIDA/IDB	14	Establish Directorate of Internal Audit for oversight and setting of internal audit standards.	9	
	13	All commitments to be recorded include those with expenditure in later years.	8	CIDA/IDB	15	Tracking survey needs identified and prioritized together with donor support.	10	
	14	Complete closure of all unnecessary bank accounts (as a result of full utilization of IFMAS).	9 and 11	CIDA/IDB				
	15	Activate Accountant General Inspection Section for oversight and standards on line ministry internal audit.	9	IDB				
	16	Develop suite of IFMAS reports to enable systematic transactions monitoring.	9	CIDA/IDB				
Reconciliation	17	PSs to implement Cash Books, at least monthly bank reconciliation and strict reporting to MOF for all non-IFMAS operations.	11	IDB	16	Comprehensive policing of bank reconciliation (at least bimonthly) with implementation of effective, automatic sanctions.	11	
	18	AG to provide regular overview (IFMAS and non-IFMAS) reconciliation reports on all accounts to minister of finance/Cabinet. Corrective action to be taken if necessary.	11					
REPORTING								
In-Year Reporting	19	Retain GEMP/IFMAS project team or similar support for additional 9-12 months to prepare transition to AG and accommodate gap/cover period before IDB takeover, and possibly overlap.	12	CIDA/IDB	17	Regular reporting, analysis and benchmarking of poverty expenditure related to PRSP for domestic and international stakeholders.	13	
	20	Finalize rollout of IFMAS to all central government agencies, with adequate hardware and training support.	12	CIDA/IDB	18	Delivery of financial statements by agencies to auditor general within statutory limit.	14	

	21	Urgent restructuring of Account General's Office.	12	IDB				
	22	Poverty expenditure data and analysis to be included gradually in budget statements, final accounts and mid year budget execution report.	13	IDB				
	23	Monthly monitoring and reporting of poverty data to minister.	13					
	24	Poverty reporting to integrate capital and recurrent expenditure.	13					
	25	Develop end-year procedure for IFMAS.	14	CIDA				
Final Audited	26	Bring into effect new Audit Act.	15	IDB	19	Clear backlog outstanding financial statements of statutory bodies, local government, and public enterprises.	15	
Accounts	27	Reorganize auditor general's office.	15	IDB	20	Strengthen Public Accounts Committee capacity.	15	
	28	Train staff auditor general's office in audit of IFMAS.	15	CIDA/IDB				
NEW								
Procurement	29	Produce regulations for new Procurement Act.	16	IDB	21	Annual report on procurement process to National Assembly.	16	
	30	Appoint Tender Board.	16					
	31	Establish Public Procurement Commission.	16	IDB				
	32	Complete procurement training for line ministries.	16	IDB				