

**El Salvador: Report on Observance of Standards and Codes—  
Fiscal Transparency Module**

This report on Observance of Standards and Codes (ROSC) - Fiscal Transparency Module on El Salvador was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 9, 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of El Salvador or the Executive Board of the IMF.

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EL SALVADOR

**Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

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June 9, 2011

**EXECUTIVE SUMMARY**

This report provides an assessment of fiscal transparency practices in El Salvador, in relation to the requirements of the *IMF Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The *IMF Manual on Fiscal Transparency (2007)* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

El Salvador meets many of the Code standards. For example, the structure and functions of the central government and its interrelations with local governments are clearly specified; the budget calendar is specified and observed, and the Legislative Assembly has adequate time to consider the draft budget; the tax laws and regulations are clear and comprehensible and appeals are considered in a timely manner; the annual budget presentation provides a separate indication of all sources of revenue, including external assistance; the final accounts cover all central government budgetary and extrabudgetary activities; the final budget accounts indicate the accounting method used and largely apply accepted accounting standards. In addition, fiscal data dissemination and monthly updating will be improved with the recent incorporation of the Finance Ministry's Fiscal Transparency Portal.

There is, however, scope for progress in clarifying relations between the government and public corporations; submitting midterm budget outturn reports to the Legislative Assembly; incorporating information on municipal governments into the budget documentation; improving budget preparation in a medium-term expenditure framework; incorporating comparative figures into the budget documentation for the three preceding years; aggregate expenditure estimates for three/five subsequent years; fiscal risk information including contingent liabilities, tax expenditure, and public debt sustainability analysis; and improved transparency in quasi-fiscal activities.

**Reports on the Observance of Standards and Codes (ROSCs) are undertaken on a voluntary basis by Fund Member countries. Publication of the ROSC occurs with the member's agreement and after prior notification to the Executive Board of the IMF. This preliminary draft has been prepared for consideration by the TLS authorities. Any issues arising from the draft can be discussed during follow-up TA mission of the Fiscal Affairs Department or through Article IV discussions. A revised draft will be prepared, taking account of any comments from the authorities and further review in Washington, DC. The revised draft will be sent to the authorities for further comment, and the authorities' agreement will be sought for the final draft to be published on the IMF's website.**

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## ACRONYMS

ANDA	<i>Administración Nacional de Acueductos y Alcantarillados</i> [National drinking water and sewer administration]
BCR	<i>Banco Central de Reserva</i>
BMI	<i>Banco Multisectorial de Inversiones</i>
CCR	<i>Corte de Cuentas de la República</i> [National Audit Office]
CEL	<i>Comisión Ejecutiva Hidroeléctrica del Río Lempa</i> [Río Lempa Hydroelectric Executive Committee]
CEPA	<i>Comisión Ejecutiva Portuaria Autónoma</i> [Executive Committee of the Port Authority]
COFOG	Classification of the Functions of Government
CSJ	Supreme Court of Justice
CT	Tax Code
DGA	Directorate-General of Customs
DGCG	Directorate-General of Government Accounting
DGICP	Directorate-General of Investment and Public Credit
DGII	Directorate-General of Domestic Taxes
DGT	Directorate-General of Treasury
DIGESTYC	Directorate-General of Statistics and Census
DL	Legislative Decree
FAES	Special Activities Fund
FI	Financial Administration
FODES	Municipal Economic and Social Development Fund
FOMILENIO	Millennium Challenge Account
GFSM	A Manual on Government Finance Statistics
IDA	International Development Association
IIC	International Investment Corporation
IPD	Decentralized public institutions
IPSAS	International Public Sector Accounting Standards
ISSS	Salvadoran Social Security Institute
LACAP	Law on Government Procurement and Contracting
LEG	Law on Government Ethics
LGAEP	Regulatory law guaranteeing the hearing of public servants
LRCA	Regulatory law governing administrative litigation
LSC	Civil Service Law
MH	Finance ministry
NFPS	Nonfinancial public sector
NIT	Tax identification number
NRC	Taxpayer registration number
PGE	General state budget
PTF	Fiscal Transparency Portal

SIGADE	Debt administration management system
STA	Single Treasury Account
TAIIA	Court of appeal for domestic taxes and customs
UACI	Institutional procurement and contracting unit
UAI	Internal audit unit
UFI	Institutional finance unit
UNAC	Regulatory unit for government procurement and contracting
URHI	Institutional human resource unit

## I. INTRODUCTION<sup>1</sup>

This report provides an assessment of fiscal transparency practices in El Salvador, as compared with the requirements of the *IMF Code of Good Practices on Fiscal Transparency*. The assessment is divided into two parts. Part one describes practices used by IMF staff based on discussions with the authorities, their replies to the fiscal transparency questionnaire, and other information that has been provided. Part two consists of an IMF staff commentary on fiscal transparency in El Salvador.

## II. DETAILED DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

1. **General government is defined consistently with the principles provided in the *Manual on Government Finance Statistics (GFSM) 1986*, and its activities are covered in the budget process. The definition used for central government does not include non-enterprise decentralized institutions.** The units of general government are listed in Box 1. In accordance with the Constitution,<sup>2</sup> public policy making and execution are incumbent on the national government, which is comprised of the Executive, Legislative, and Judicial Branches as well as a series of constitutional agencies and local governments. The law governs the composition and functions of the Executive Branch, to which the ministries and decentralized public institutions report.<sup>3</sup> Expenditure by decentralized public institutions represents approximately 55 percent of total central government outlays. Although the amounts involved are negligible, there are extrabudgetary funds supported with individual income from some ministries (such as the Ministries of Public Works and Agriculture) and transfers and grants administered directly by the institutions. In addition, the annual budget does not register expenditure deriving from contributions to the Millennium Challenge Account (FOMILENIO), which is reflected in an extraordinary budget. The National Drinking Water and Sewer Administration (ANDA), a public enterprise of the central government, engages in quasi-fiscal activities by providing water service at rates approximately 50 percent below market level.

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<sup>1</sup>Fiscal transparency discussions in El Salvador were held during October 18–29, 2010. A team from the IMF comprised of J. Ruiz, Mission Head, F. Bessette (FAD), V. Díaz (Regional Technical Assistance Center), and M. Lebrancón (Expert) met with staff from the Finance Ministry, the central bank (Banco Central de Reserva), the Public Works Ministry, National Audit Office, public enterprises, representatives from the private sector, and international organizations (the European Union and World Bank).

<sup>2</sup>The Constitution of 1983 was subject to a number of amendments prior to 1996. Title VI of the Constitution regulates agencies of the national government, their powers and competence.

<sup>3</sup>Decentralized government institutions have their own regulations giving them legal status, their own assets, and functional autonomy. Most of such agencies receive transfers from the central government and execute non-commercial functions, such as the University of El Salvador, national hospitals, municipal and local development institutions, and regulatory agencies.

<b>Box 1. General Government in El Salvador</b>	% of GDP, 2010
General government in El Salvador comprises the following:	
<b>Central Government (CG) Units Covered by the Budget</b>	
1. General Public Services, including the legislator, president's office, judiciary, and 13 ministries.*	5.1
2. Other**	0.5
<b>Central Government Units with Individual Budgets</b>	
3. 58 Subsidized institutions***	2.4
4. 11 Non-subsidized institutions	4.4
<b>Local Government</b>	
5. 262 Municipal governments	2.8
<b>Total</b>	<b>15.2</b>
* Does not include transfers to subsidized institutions, payment of interest on debt, or transfers to municipalities.	
** Includes eight institutions designated as independent in the General State Budget, such as the National Audit Office, Supreme Electoral Court, National Public Prosecutor's Office, etc.	
*** Includes 30 hospitals and a further four institutions attached to the Ministry of public health.	

## Relationships between government and public nonfinancial corporations

2. **Relationships between government and public nonfinancial and financial corporations are unclear.** There are four public nonfinancial enterprises included in the General State Budget (PGE) in the electricity, port and airport, water distribution and sanitation, and lottery sectors<sup>4</sup> which are not classified as limited companies (*sociedades anónimas*). However, there are four limited companies in which the Río Lempa Hydroelectric Executive Committee (CEL) has holdings<sup>5</sup> and three banks in which Banco Central de Reserva owns stakes<sup>6</sup> which are not reflected in the General State Budget. The budget documentation does not contain any information on these companies. Relations between the central government and ANDA are unclear. As ANDA's budget is clearly insufficient to cover its requirements, the enterprise cannot pay CEL for its electricity service, nor can it cover its debt amortization or interest. Accordingly, the central

<sup>4</sup>The four enterprises are the national charity lottery (Lotería Nacional de Beneficencia), Río Lempa Hydroelectric Executive Committee (CEL), the National Drinking Water and Sewer Administration (ANDA), and the Executive Committee of the Port Authority (CEPA).

<sup>5</sup>Inversiones Energéticas, S.A. de C.V.; Empresa Transmisora de El Salvador, S.A. de C.V.; Compañía Eléctrica Cucumacayán, S.A. de C.V.; and La Geo, S.A. de C.V.

<sup>6</sup>Banco Multisectorial de Inversiones, Banco de Fomento Agropecuario, and Banco Hipotecario de El Salvador, S.A.

government approves a legislative decree from time to time to pay ANDA's obligations to the CEL, and the latter undertakes external debt in the same amount. Owing to budget constraints, ANDA's profit and loss statement does not reflect expenditure actually incurred in accordance with the International Accounting Standards applicable to government enterprises. Debt registered by CEL for electricity service to ANDA now amounts to approximately US\$47 million (0.2 percent of GDP) for service provided from July 2008 until the present.

**3. Mechanisms to regulate profit transfers from state enterprises to the budget are not clear.** While the public corporation sector is insignificant (its budget represented approximately 1.7 percent of GDP in 2009), some enterprises transfer resources to the government. There is no clear mechanism to regulate profit transfers or dividend distributions. For example, CEPA transfers profits to the budget, while CEL does not. Further, the laws governing autonomy of public enterprises do not indicate profit distribution policies.

### **Government relations with the central bank and public financial sector**

**4. The Banco Central de Reserva (BCR) is partially independent and does not carry out significant fiscal functions.** The BCR is formally an autonomous technical public institution. It is governed by a board of directors whose chair is appointed by the President of the Republic.<sup>7</sup> The BCR cannot directly or indirectly finance the state or state enterprises or institutions, nor can it provide them with endorsements, sureties, or guarantees for liabilities contracted by them, save in exceptional circumstances identified by law and approved by the Legislative Assembly. However, the BCR has allocated credits of US\$704 million (3.2 percent of GDP) to the government for expenditure financed prior to the Banking Law<sup>8</sup> and US\$120 million (0.6 percent of GDP) in expenditure to rehabilitate the financial sector. Not all services provided to the central government<sup>9</sup> are remunerated. In exchange, balances are remunerated in the treasury operating account to reflect earnings generated on investments.

**5. Financial public companies engage in some quasi-fiscal activities.** The BCR owns practically all the capital in three public banks. Banco Hipotecario and Banco de Fomento Agropecuario focus on financing small and medium-scale agricultural and industrial enterprises that do not have access to regular financing channels from the financial sector. Banco Multisectorial de Inversiones (BMI) is a second-tier bank that channels resources to the commercial banking sector and offers subsidized credit facilities targeting specific sectors (see paragraph 33).

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<sup>7</sup>Of the seven members of the board of directors, three are appointed on the proposal of the private sector and one is proposed by banks and financial institutions (Article 10).

<sup>8</sup>Organic Law on the Banco Central de Reserva de El Salvador 746 of March 22, 1991.

<sup>9</sup>Such as cash management, debt issues, macrofiscal studies, etc.

## Relations between government and the private sector

**6. Laws and processes covering government regulation of the nonfinancial private sector are clear and open.** The government's participation in the financial and nonfinancial sectors is insignificant and indirect through public enterprises CEL and BCR.<sup>10</sup> Their financial statements are externally audited. There is no government agency responsible for property oversight or policy coordination. Although there is no established legal procedure for drafting and amending regulations governing the private sector, they are normally subject to a hearing process prior to approval. While procurement of public sector goods and services is transparent, payments are made with some delay and there is no obligation to pay interest.

The Consumer Protection Law<sup>11</sup> incorporates the creation of an agency having legal status and administrative and budget autonomy, provides for more effective acknowledgement of consumer rights in light of the United Nations guidelines, and registers major progress by applying the burden of proof in exercising the right of defense for violations in connection with public services. The Law on Competition promotes, protects, and guarantees competition.<sup>12</sup> This law also establishes a technical institution under public law having administrative and budget autonomy to promote, protect, and guarantee competition, to prevent and eliminate practices that limit or restrict competition, to enhance economic efficiency and consumer well-being. However, there are regulations that must be clarified and a more competitive economic environment must be fostered for the private sector. For example, according to the World Bank publication entitled *Doing Business 2011*, it is difficult and costly for enterprises to pay taxes, to start and establish enterprises, and to obtain construction permits. Investor protection must also be enhanced to obtain the capital required for growth, innovation, diversification, and competition among enterprises.

## Fiscal management relations among the branches of government

**7. The fiscal functions of the Executive, Legislative, and Judicial Branches are clearly defined by law.** The Executive Branch is responsible for preparing the draft revenue and expenditure budget and submitting it to the Legislative Assembly at least three months before the beginning of the new fiscal year. The Legislative Assembly is responsible for amending and approving the draft budget,<sup>13</sup> and for authorizing domestic and external debt operations other than those in the short term. Any amendments to the budget law involving expenditure or reduced revenue must specify the sources of revenue to be used for financing or replacement. The President of the Republic has veto rights over laws approved by the

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<sup>10</sup>CEL holds just under 100 percent in Inversiones Energéticas, S.A. de El Salvador, Compañía Eléctrica Cucumacayán, S.A., and Empresa Transmisora del El Salvador, S.A. The BCR holds 100 percent in Banco Multisectorial de Inversiones, Banco de Fomento Agropecuario, and Banco Hipotecario de El Salvador.

<sup>11</sup>Approved under Legislative Decree 776 of April 21, 2006.

<sup>12</sup>Approved under Legislative Decree 528 of November 26, 2004.

<sup>13</sup>If the budget has not been approved before the fiscal year begins, the budget for the prior fiscal year will be extended. When the new budget law is approved, the required adjustments will be made according to the outturn.

Legislative Assembly, requiring a two-thirds majority to override. The Executive Branch may autonomously execute credit transfers between budget items in the same line or administrative agency, unless they are declared non-transferrable.<sup>14</sup> However, transfers between credit allocations in different administrative agencies or lines of general government must be approved by the Legislative Assembly at the initiative of the President of the Republic, through the Minister of Finance. The Minister of Finance is required to submit the State financial management report to the Legislative Assembly within three months after the end of each fiscal year. This report contains outturn for the General State Budget and the statement of the public treasury's fiscal asset position (including statements of the financial position and economic returns). If this obligation is not met within the specified time frame, the Minister will be removed from office.<sup>15</sup>

### **Fiscal management relations among different levels of government**

**8. The responsibilities of different levels of government and their interrelations require further clarification.**<sup>16</sup> The Constitution grants the municipalities financial, technical, and administrative autonomy. The Municipal Code<sup>17</sup> lists, though not always with great precision, 30 areas of competence for the municipalities, in which the central government may only intervene when the local government does not exercise its authority or does so insufficiently.<sup>18</sup> In any case, the central government's actions will require the approval of the municipal authorities and in coordination with their plans and programs. In practice, however, many of the powers assigned to the municipalities are shared, and there is no clear distinction between the functions of each level of government. Local governments receive an annual contribution from the state through the Municipal Economic and Social Development Fund (FODES) of 7 percent of net current revenue under the General State Budget that is objectively distributed according to the criteria of population, fairness, poverty, and land area. Local governments may set and amend their tax rates subject to the approval of the

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<sup>14</sup>Article 229 of the Constitution. Article 45 (c) of the Organic Law on the Financial Administration provides that allocations of special budgets (decentralized agencies and public enterprises) cannot be transferred from one institution to another. However, transfers may be made between allocations in the same institution provided that such transfers do not alter their savings or investments. Any amendment that changes current savings or investments must be approved by the Council of Ministers at the initiative of the Minister of Finance.

<sup>15</sup>Article 168 of the Constitution.

<sup>16</sup>The key legislation governing municipal fiscal activities comprise: (i) the Constitution (Articles 202-207); (ii) the Municipal Code approved by Legislative Decree 274 of January 31, 1986, setting forth the principles for organization, operation, and exercise of the autonomous powers of the municipalities; (iii) the Law Establishing the Municipal Economic and Social Development Fund (FODES) approved under Executive Decree 35 of March 25, 1998 guaranteeing development and economic autonomy of the municipalities; (iv) the Regulatory Law on Municipal Public Debt approved under Legislative Decree 930 of December 21, 2005; and (v) the Regulatory Law on Municipal Public Debt approved under Legislative Decree 930 of December 21, 2005.

<sup>17</sup>Article 4.

<sup>18</sup>In addition to the provision of traditional local public services, this list contains a broad range of powers in a variety of areas (promotion and financing of housing programs; promotion and development of programs for health, environmental sanitation, fighting and preventing disease; preparation, approval, and execution of urban and rural development plans, etc.).

Legislative Assembly. The Constitution also permits the municipalities to create, amend, and eliminate public contributions and charges to carry out specific works within the limits of a general law. Municipal debt may not exceed 1.7 times operating revenue generated during the prior fiscal year. Short-term liabilities and new debt service may not exceed the limit of 0.6 times operating savings generated during the prior fiscal year. The municipalities are required to report their debt to the Finance Ministry.

## **Legal and administrative framework for budget management**

9. **The legal framework for management of public funds is clear and covers the essential matters in the budget cycle.** The Constitution<sup>19</sup> regulates public finance in fundamental matters involving budget preparation and execution, government procurement, taxes, public debt, external supervision, and decentralization. The Organic Law on State Financial Administration (AFI Law) and its Regulation<sup>20</sup> govern public sector financial management and establish the Integrated Financial Management System (SAFI) that comprises subsystems for budget, public credit and investment, cash and government accounting, and a computer application having the same name. The institutional coverage of the Law on State Financial Administration covers centralized and decentralized institutions, public enterprises and other agencies that defray their operations with public funds. The municipalities are only subject to the Law on State Financial Administration in the regulatory area and recording requirements in connection with government accounting. The principle of "regulatory centralization and operational decentralization" instituted under the Law on State Financial Administration assigns the Finance Ministry responsibility for public finance management and coordination; budget preparation, approval, execution, monitoring, and evaluation; management of cash and the single treasury account; public credit and investment; and the objectives and principles of government accounting. The line ministries and other institutions therefore have operational responsibilities in the fiscal area. Their institutional structure includes the following: (i) an Institutional financial unit (UFI) responsible for the agency's budget, accounting, and cash operations; (ii) an Institutional procurement and contracting unit (UACI); (iii) an Internal audit unit (UAI); and (iv) an Institutional human resource unit (URHI).

10. **The legislative underpinnings for tax revenue have been clarified under a tax reform, and are complete.** Tax reforms undertaken in 2000 and that continued throughout the decade simplified the legal framework for tax revenue, producing a tax structure with fewer taxes and lower levels of discretion. The Tax Code clearly defines taxpayers' obligations and rights in terms of compliance with tax laws and procedures, as well as the rights and obligations of the Directorate-General of Domestic Taxes (DGII), the Directorate-General of Treasury (DGT), and the Directorate-General of Customs (DGA). As a result of Central American customs integration under the Standard Central American Tariff Code (CAUCA), customs procedures are governed by international rules applied at the regional level and broadly accepted by administrators and users. There are only a few laws, in

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<sup>19</sup>Articles 223-234.

<sup>20</sup>Decreets 526 of December 6, 1995 as amended under Decreets 716 of May 23, 1996 and 172 of December 4, 1997 and Decree 82 of August 16, 1996 approving the regulation.

addition to tax laws, that allow tax incentives to be granted. The most important of such concessions are designed to stimulate exports. Export incentives are provided in three laws: Export Reactivation, Industrial Free Trade Areas, and Marketing of International Services.<sup>21</sup> Tax benefits in connection with international flows of goods are also provided in the laws governing the customs regime for duty-free shops and baggage carried by inward travelers,<sup>22</sup> similar to those existing in many other countries. Sectoral tax incentives were granted a number of years ago to production of books and printing activities in general.<sup>23</sup> Following the successful tax reform of 2004, in addition to service export incentives, benefits were granted to the project to reactivate the Puerto de la Unión, the tourism sector, and development of renewable fuel for electricity generation.<sup>24</sup> These exemptions were granted by law, and information on tax expenditure is not publicly disclosed.<sup>25</sup>

**11. The tax administration is quite fragmented, which has implications for taxpayers.**

In general, this fragmentation makes comprehensive management of the entire tax cycle a difficult matter, with substantial repercussions on tax administration and taxpayers. On the one hand, the administration registers weaknesses in controlling different stages of the tax cycle, owing to the lack of a general view of the system. On the other hand, taxpayers do not receive comprehensive service and it is difficult for them to understand different rules and procedures, which may lead to increased errors in voluntary compliance. Domestic tax administration is executed by two institutions of the Finance Ministry: the DGII and the DGT. The DGII has basic functions of recording, processing of returns, inspection in connection with omissions, oversight, and taxpayer assistance. The DGT manages persuasive collection and revenue functions. Customs administration is executed by the DGA. However, the system of appeals and coercive collection, traditional functions of the tax administration, are executed outside of these general areas. The first is carried out by the Court of Appeals for Domestic Taxes and Customs (TAIIA) of the Finance Ministry. The second is carried out by the Prosecution Service. We observe that the three directorates-general discussed above are not administratively or financially autonomous. The Finance Ministry carries out staff and budget management on a centralized basis.

**12. Taxpayers' legal rights are clearly defined and adequate, and mechanisms for appeals in connection with tax liabilities are provided, although some delays might be involved.** Chapter VIII of the Tax Code provides a detailed description of the scheme of penalties and clearly establishes tax violations, punishable cases of noncompliance, taxpayers' responsibilities in this connection, and the penalties applicable in each case. The

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<sup>21</sup>Decree 460 of April 18, 1990; Decree 405 of September 3, 1998, and Decree 431 of October 25, 2007, respectively, as subsequently amended.

<sup>22</sup>Decree 373 of April 5, 2001 and Decree 680 of October 20, 1993, respectively, as subsequently amended.

<sup>23</sup>Printing Law (Decree 12) of October 6, 1950 and Book Law (Decree 808) of February 16, 1994 as subsequently amended.

<sup>24</sup>Decree 852 of October 26, 2005; Decree 899 of December 15, de 2005, and Decree 462 of November 8, 2007, respectively.

<sup>25</sup>The Finance Ministry provided the mission with an informal estimate of tax expenditure for 2007 of US\$282.4 million (1.4 percent of GDP).

DGII and DGA have mechanisms to accept and evaluate taxpayer complaints and appeals through administrative channels in the first instance. Within the Finance Ministry, the TAIIA serves as a second administrative instance for taxpayer complaints and appeals. The Judicial Branch provides a third level of appeals for disputes in its regular courts, while the Supreme Court of Justice is the final level of appeal. Although these processes are transparent, they can be quite time consuming, which undermines the efficiency of the collection or penalty process.<sup>26</sup>

### **Public discussion**

13. **Public opinion is generally not consulted sufficiently in terms of plans for new laws and amendments to the legislation and to general policy.** There is no regulated procedure for consulting public opinion on new laws or regulations, although informal discussions are held with organizations representing the public and enterprise sector. The executive summary of the Open Budget Report of October 2010 [*Informe de Presupuesto Abierto de Octubre de 2010*] recommends that the public should be given opportunities to testify in legislative hearings on the budget.<sup>27</sup> This position is confirmed by the Chamber of Commerce, which notes that the dialog on the state's new laws and policies could be more regular and formal. It is hoped that the launch of the Finance Ministry's Fiscal Transparency Portal (PTF) will improve communication with civil society and will adequately reflect public opinion.

### **Legal framework for management of assets and liabilities**

14. **There is no legislation governing management of assets and liabilities, except for debt, which is covered in a subsystem of SAFI.** The ministries have no consistent policy based on clear rules for the sale or management of assets, or the procurement or management of non-debt assets and liabilities (see paragraphs 35-36). By contrast, decisions and operations in connection with public debt (direct and guaranteed debt) are subject to centralized processes based on the Law on State Financial Administration for authorization, negotiation, contracting, and legalization. All of the central government's medium and long-term loans and guarantees are subject to the same two-tier authorization and approval process. First, the Legislative Assembly approves, by simple majority, the authorization to sign the loan agreement proposed by the Executive Branch based on a report prepared by the Directorate-General of Investment and Public Credit (DGICP) containing the key components of the request initiated by the beneficiary agency. In the second stage, the Legislative Assembly approves the loan agreement with a qualified majority. Where short-term debt is concerned, the central government can issue treasury paper through the DGT to fill temporary revenue gaps, up to a ceiling set in the Law on the General State Budget.<sup>28</sup>

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<sup>26</sup>See Esther Palacio, *El Salvador: Informe del Desempeño de la Gestión de las Finanzas Publicas* [El Salvador: Fiscal management performance report] European Commission, May 2009.

<sup>27</sup>Page 4 of main results.

<sup>28</sup>Article 227 of the Constitution, Article 97 of the Law on State Financial Administration, and Article 9 of the 2009 General State Budget Law.

This ceiling has normally been established at 40 percent of current revenue, and it is observed in practice.

Within the Finance Ministry, the DGICP proposes public debt policy based on medium-term fiscal projections reflecting priority investment and financing priorities and the capacity to cover public debt service. The document on debt policy for the period 2010–14 is now being prepared, with a substantial delay. The latest document of this type covers the period 2004–09 and does not include the report establishing the debt levels for subsequent years.<sup>29</sup>

## B. Openness of the Budget Process

### The Budget Preparation Process: Clarity and Consistency of Process and Presentation

15. **The timetable for the annual budget is clearly defined by the law and has generally been observed in recent years.** The timetable (see Box 2) is established under the Constitution<sup>30</sup> and in the Law on State Financial Administration and its Regulation. It is, however, discussed in greater detail in the annual budget policy report available from the Finance Ministry's Fiscal Transparency Portal. The budget begins in April with macroeconomic projections included in the report mentioned above, which is approved by the Council of Ministers for distribution to various government institutions. Prior to September 30, the Finance Ministry must review and analyze the institutional budgets, consolidate and assesses them, and submit this information to the Council of Ministers before they are forwarded to the Legislative Assembly.

The Legislative Assembly has three months to examine and debate the draft annual budget. If the Legislative Assembly does not approve the draft annual budget in the established time frame, the fiscal year will begin with the budget approved for the prior fiscal year, as currently amended. During recent years, it has not been necessary to extend the budget from earlier periods. The budget process is open, as the institutions participate in discussions and analysis of their proposals and the budget policy report is published at the Finance Ministry's Fiscal Transparency Portal. The Fiscal Transparency Portal also contains the Citizen's Guide on Preparation of the General State Budget, which presents a flow chart of the budget preparation and approval process.

### Medium-term framework and basic policies for the budget

16. **While the underlying fiscal projections and macroeconomic assumptions are presented in the budget documentation, they generally have not been realistic.** During the past two years, the Finance Ministry has been making efforts to prepare a budget in a medium-term context, although this effort is still at an early stage and the Finance Ministry does not have access to a macroeconomic framework. While there is no obligation to prepare

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<sup>29</sup>The Medium Term Fiscal Framework report for 2010-14, consistently with the targets in the Stand-by Arrangement signed with the IMF, contains debt ratios for the nonfinancial public sector and a presentation on public debt sustainability (April 2010).

<sup>30</sup>Articles 167 and 226-229 of the Constitution.

macroeconomic forecasts, the Finance Ministry coordinates with the BCR for their preparation.

The coordination mechanisms between the Finance Ministry and the BCR are informal and are based on trust and experience from recent years. In addition, there is no independent expert assessment or analysis comparing macroeconomic assumptions, and there are presently no incentives for external participation in macroeconomic forecasting.

<b>Box 2. The budget Preparation Process</b>		
<b>Due dates</b>	<b>Activities</b>	<b>Legal basis</b>
The fiscal year is set on a calendar-year basis by the Constitution and Law on State Financial Administration. The main steps in the process are as follows:		
April	Preparation of macroeconomic forecasts.	Agreement between the BCR and Finance Ministry
No later than April 30	The Council of Ministers discusses and approves the budget policy, a document prepared by the Finance Ministry and proposed to the President of the Republic.	Law on State Financial Administration, Article 28
Fourth week of May and first week of June	Dissemination of Budget policy, which is the responsibility of the Finance Ministry (DGP).	Budget Policy Report
Second week of June	Communication of budget ceilings and budget preparation rules, which is the responsibility of the Finance Ministry.	Budget Policy Report
Second week of July	Presentation of the Draft Institutional Budget, which is the responsibility of each institution.	Budget Policy Report
Second week of July and second week of September	Analysis and consolidation of institutional drafts and presentation of the draft budget, the draft wage budget, and the budget message.	Budget Policy Report
No later than September 30	Discussion and approval of the draft budget by the Council of Ministers. Submission to the Legislative Assembly.	Law on State Financial Administration, Article 38
No later than December 31	Discussion and approval of the draft budget by the Legislative Assembly.	Law on State Financial Administration, Article 38

Resources allocated in the budgeting process have been unrealistic,<sup>31</sup> leading to surpluses in some institutions and deficits in others. The Executive Branch had a mechanism, Unit 10 of the Presidency, to address contingencies experienced by the agencies, funded with resources from pending commitments for which maturity or execution has been delayed. However, the Judicial Branch recently declared this mechanism to be unconstitutional, implying that requirements not covered in the initial budget are subject to the Legislative Assembly's approval.

17. **The budget documentation includes a statement of medium-term fiscal policy objectives.** In the 2011 draft budget preparation, a medium-term fiscal framework was developed, which, although in the substantially preliminary stages, establishes the fiscal policy objectives, targets, strategies, and guidelines for the next four years, along with the most important macroeconomic and fiscal projections. The medium-term objectives reflect the government's policies established in the five-year development plan. Some spending agencies<sup>32</sup> have prepared their medium-term estimates based on the five-year development plan.

18. **There is no legislation governing fiscal rules.** There are no legislative limits to the maximum public deficit level, expansion in expenditure, investment and debt, or other fiscal aggregates, with the sole exception of debt limits for local governments. Medium-term fiscal targets have also yet to be established to develop budget proposals consistent with fiscal sustainability.<sup>33</sup>

### **Fiscal sustainability analysis**

19. **The budget documentation does not include a fiscal sustainability assessment or sensitivity analysis of the key economic and fiscal policy assumptions.** There are no studies on fiscal sustainability or on the sensitivity of finances to changes in the key budget assumptions accompanying the draft General State Budget.<sup>34</sup> However, in April 2010, the Finance Ministry made a presentation to the Legislative Assembly on El Salvador's medium-term public debt sustainability (2010–15).<sup>35</sup> Although domestic and foreign debt are recorded

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<sup>31</sup>The 2009 *Informe del Desempeño de la Gestión de las Finanzas Públicas de El Salvador* (PEFA 2009), El Salvador's fiscal management performance report, indicates that the credibility of the budget is affected by the incorporation of budget increases during the fiscal year leading to a significant rise against the initially approved expenditure (page 9). It also states that most real aggregate expenditure slippage escapes *ex ante* approval by the Legislative Branch (page 9).

<sup>32</sup>Ministries of Public Health, Public Works, and Agriculture.

<sup>33</sup>However, it is important to point out that the BCR is prohibited from granting credits to government, and this provision has been strictly observed, save for exceptional circumstances identified by law and approved by the Legislative Assembly.

<sup>34</sup>While sustainability and sensitivity analyses and calculations are conducted in general by the BCR, they are not formally established in a document that systematically presents the findings and conclusions. This approach makes it possible to highlight risk factors in medium-term projections and is used as a basis for discussions with the IMF in connection with each midterm program review.

<sup>35</sup>Available at [http://www.transparenciafiscal.gob.sv/portal/page/portal/PTF/Deuda\\_Publica/Sostenibilidad](http://www.transparenciafiscal.gob.sv/portal/page/portal/PTF/Deuda_Publica/Sostenibilidad).

through the DGICP of the Finance Ministry, the capacities to conduct fiscal sustainability analyses are still insufficient.

### **Coordination of budgetary and extrabudgetary activities**

20. **The mechanisms for coordination and management of budgetary and extrabudgetary activities are well-defined, although there is scope for improving the accuracy of the information on the latter.** Extrabudgetary activities of the central government are formalized in different ways, as shown in Box 3. Specifically, the data on special activity funds (FAES), which in 2009 represented expenditure of US\$39.1 million (0.2 percent of GDP),<sup>36</sup> are highly aggregated and lack transparency.<sup>37</sup> The schemes of rates and duties applied are not published or accessible in a transparent manner. Extraordinary institutional resources are even less transparent. FOMILENIO also manages its support with an extraordinary budget that is separate from the annual budget.<sup>38</sup> However, all of these extrabudgetary activities are presented in highly aggregated form in the management reports published by the Directorate-General of Government Accounting of the Finance Ministry. Budgets supplementing the initial one are presented, and those of specific agencies and organizations are not included, which does not reflect the principles of budget unity and universality.

#### **Box 3. Extrabudgetary Funds in El Salvador**

The following extrabudgetary resources do not require approval from the Legislative Assembly:

- (i) Those involving special activities deriving from the sale of goods and services, produced or marketed by central government agencies, which generate revenue from duly legalized activities not germane to the nature or purpose of such institutions;
- (ii) Extraordinary institutional resources comprising transfers or grants administered directly by the institutions. The foregoing resources are reported in the State financial management report and are managed in accordance with current legislation;
- (iii) The Millennium Challenge Account (FOMILENIO), other minor funds (such as the Environmental Fund of El Salvador—FONAES), and “special funds.”

In 2009, special activity funds represented US\$39.1 million in expenditure. Extraordinary institutional resource funds represented US\$54.1 million and FOMILENIO represented US\$54.6 million, amounting to 4.2 percent of central government expenditure.

<sup>36</sup>See State financial management report, 2009, Finance Ministry (DGCG).

<sup>37</sup>However, the ministries provide more detailed information in their annual reports.

<sup>38</sup>FOMILENIO operations are regulated by the agreement with the U.S. government and are subject to oversight by the National Audit Office.

## **Budget Execution: Accounting bases and reporting**

**21. Accounting and internal supervision procedures generally provide a solid base for maintaining current information on obligations, payments, unpaid items, liabilities, and assets.** Transactions are recorded in the accounting system on an accrual basis.

Government accounting rules are based on generally-accepted principles, although the reports are not based on International Public Sector Accounting Standards (IPSAS). The government accounting standards reflect the bases for recording and reporting fiscal information through general and specific standards and those governing internal supervision. The government's decentralized management model entails bank accounts centralized with the Single Treasury Account (CUT) managed by the DGT, and subsidiary bank accounts of the CUT, decentralized with the institutions, which are authorized by the DGT and managed by the institutions. The DGT can establish the monitoring and supervision mechanisms it deems relevant for account balances, and may order balances to be credited to the Single Treasury Account without using or making commitments in institution's accounts. Each institutional finance unit must submit bank reconciliations and balance monitoring information for all institutional accounts to the DGT.

**22. The accounting system can be used to produce accurate reports during the year on general government budget execution.** The SAFI-based government accounting system<sup>39</sup> is used to register all stages of public expenditure budget execution through the various institutional units,<sup>40</sup> which produces adequate information on the level of budget arrears. The SAFI is now operational in 100 percent of the state public institutions, and, in the municipal environment, in 20 of the most representative municipal governments (of a total of 262 municipalities), which report through the municipal SAFI system (SAFIMU).

Those not participating in the system report data to the consolidated government accounting system using forms prepared by the Directorate-General of Government Accounting. This recording system complies with the budget classification. Although there are a variety of budget mechanisms, registration, execution procedures, and reporting for the budget use the same procedures in all cases.

**23. The Legislative Assembly does not receive timely quarterly reports during the year on budget outturn, nor does it conduct midterm reviews, although monthly expenditure execution reports are publicly disseminated.** Quarterly budget monitoring and assessment reports are prepared for internal use. Expenditure execution reports should be filed monthly, within three weeks after the end of the prior month. Both the Finance Ministry and the BCR publish fiscal data at their respective portals.

**24. During the fiscal year, supplementary revenue and expenditure proposals are submitted to the legislature, that are consistent with the presentation of the original budget.** The draft General State Budget for each year includes general government, decentralized institutions (special budgets), and extraordinary budgets (basically for social

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<sup>39</sup>Its legal coverage is provided in the Law on State Financial Administration (Decree-Law 516 of November 23, 1995) and its Regulations (Decree 82 of August 16, 1996). There is also a SAFI Technical Manual and Manual on Budget Execution Processes.

<sup>40</sup>See *Manual de Procesos para la Budget Execution* [manual on budget execution processes].

investment). Amendments to the budget are processed through the Legislative Assembly, use the same annual budget classification, and specify the financing sources. The system of budget amendments introduces rigidities into execution for institutions associated with the incorporation of credits for investment (carryovers) and externally-financed investments.<sup>41</sup> There is no public information on amendments to the original budget during its processing and execution, and the information is disclosed in the annual state financial management report.

25. **The definitive audited accounts are available within seven months from the end of the fiscal year.** The state financial management report is submitted annually to the Legislative Assembly for assessment, within three months after the end of the fiscal year. This report is submitted annually for examination by the National Audit Office (CCR) within four months after the accounts are presented,<sup>42</sup> and is submitted to the National Assembly, although there is no committee within the legislative body that reviews all external audit reports. Accordingly, no steps are taken in the detection of potential problems. This report is accessible to the public at the Finance Ministry's portal. The state financial management report does not include information on local governments (municipalities).

### C. Public Availability of Information

#### Commitment to disseminate fiscal data in a timely manner

26. **There is a clear commitment to disseminate information with fixed periodicity and clear responsibilities.** Fiscal information has been supplemented and improved with the launch of the Fiscal Transparency Portal at end-October 2010. Although the 2010 open budget report classifies El Salvador 37<sup>th</sup> out of 100,<sup>43</sup> stating that it provides minimal information to the public in its budget documents during the year, the government launched an ambitious plan to improve access to fiscal information with the Fiscal Transparency Portal initiative developed with support from the World Bank, as presented in Box 4. Each relevant branch of government has agreed to provide the Fiscal Transparency Portal management unit with adequate, readable information, at a fixed periodicity. The process was formally confirmed with a July 2010 resolution approving the rules for public access to fiscal information.

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<sup>41</sup>Article 45 of the Law on State Financial Administration provides the details of these regulations. Any additional expenditure requires approval by the Legislative Assembly, and transfers between items within the same institution are only permitted with authorization from the Finance Ministry.

<sup>42</sup>Article 5 of the Law on the CCR.

<sup>43</sup>With relation to countries in the region, we can point out that El Salvador is situated at middle level, only above Mexico (52), Guatemala (50), and Costa Rica (47).

#### **Box 4. Fiscal Transparency Portal**

The purpose of the Fiscal Transparency Portal (PTF) is to upgrade the public perception of transparency in fiscal management by providing simple, easy-to-access mechanisms to obtain relevant, timely, and reliable information. This effort involves the following activities:

- Diagnostic of existing information, webpage, and information systems.
- Design and construction of the Fiscal Transparency Portal in consultation with key users and players.
- Proposed organization, processes, and functions for the portal's management and sustainability.
- Dissemination and training to use the Fiscal Sustainability Portal.

The features of the Fiscal Sustainability Portal are (i) a new image with an attractive, easy-to-use design; (ii) frequently updated information organized for rapid access; (iii) static content (document downloads) and dynamic content (public and database queries); (iv) scope to become an official public communication mechanism; (v) establishment of a Finance Ministry Portal Section; and (vi) contribution to the effort to upgrade the image of the Finance Ministry Portal.

Each directorate that contributes information has agreed to report using a model, coverage, and frequency determined in agreements they sign, accessible at the same portal.

Source: Finance Ministry and [www.transparenciafiscal.gob.sv](http://www.transparenciafiscal.gob.sv).

#### **Coverage and quality of budget documentation**

27. **The budget documentation covers most central government fiscal activities. As the main coverage limits derive from juridical sources, the data on general government are to all intents and purposes complete.** The budget documentation submitted to the Legislative Assembly includes three documents: the budget message, Wage law, and General State Budget. The information covers all institutions of the central government (regular budget), decentralized institutions (special budgets), and, where applicable, extraordinary budgets (substantially social investment). There are, however, some institutions whose budgets are not included in the documentation submitted to the legislative body (extrabudgetary funds), although they are not considered to be quantitatively significant. Information on local government budget programming is also not included, for reasons of autonomy. Where revenue is concerned, there are no significant inflows from the exploitation of natural resources, and the financing sources have been identified.

28. **All defense expenditure is declared in the budget.** Capital expenditure for the defense sector is considered military capital expenditure, a practice that is inconsistent with the recommendations of the 2001 Manual on Government Finance Statistics. Such outlays should be placed under current expenditure.

#### **Coverage of fiscal reports**

29. **Fiscal reports cover substantially all central government expenditure, although not general government; inflows from all main revenue sources are listed separately.** All budget expenditure items are entered in gross form. The budget classification system makes it possible to identify expenditure classified according to each administrative agency,

to classify revenue, expenditure, financing, and debt in a format compatible with the 1986 Manual on Government Finance Statistics.<sup>44</sup> It has not yet been possible to develop a functional classification according to GFSM 2001 or a classification by program. The proposed budget methodology is based on "management areas."

The annual budget gives a separate itemization of revenue in connection with special contributions such as taxes levied on diesel fuel, gasoline, sugar, alcoholic beverages, tobacco, weapons, tourism promotion, and public transportation. This involves allocated revenue transferred to specific decentralized public institutions.

**30. Budget documents do not reflect the fiscal situation of local governments, and provide information on finances for some public enterprises.** The budget is used only to record transfers of 7 percent of the state's current revenue to local governments (municipalities) through the Fund for Municipal Economic and Social Development (FODES), under the management of the Salvadoran Institute for Municipal Development. While the budget does not contain information on local government finance, it does provide information on four public enterprises.<sup>45</sup>

The DGCG obtains information on key public sector activities through the Integrated Financial Management System (SAFI), although the consolidation is still incomplete. The annual state financial management report provides detailed information on the central government, decentralized institutions, and four public enterprises. There are enterprises that report to the CEL and banks in which the BCR owns stakes for which financial information is not included in the budget documentation. Although partial information on local governments is available, it is not included in the budget documentation or reports, nor is it published. The municipalities report the information to the Finance Ministry using the government accounting system, as the SAFI coverage does not extend to all of them.

The DGCG monitors local government debt, but not arrears or unpaid items, and generates the Annual status report on public municipal debt.

### **Past and forecast fiscal data in the budget**

**31. The budget document does not disclose key fiscal aggregates for years before or after the fiscal year in question.** The draft General State Budget and special budgets for 2011 do not provide data on fiscal aggregates for years before or after the fiscal year in question.

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<sup>44</sup>The official manual recommended by the IMF is now the 2001 Manual on Government Finance Statistics (GFSM 2001), which is compatible with the 1993 System of National Accounts (SNA 1993) of the United Nations.

<sup>45</sup>The Rio Lempa Hydroelectric Executive Committee (CEL), the National drinking water and sewer administration (ANDA), the National Charity Lottery (Lotería Nacional de Beneficencia), and Executive Committee of the Port Authority (CEPA).

## Treatment of fiscal risks

32. **The budget documents do not permit an adequate knowledge or assessment of fiscal risks.** The budget does not contain an analysis of fiscal risks, or on the sensitivity of budget estimates to changes in economic variables, nor does it include the budget outturn report or accounts.<sup>46</sup> Statements of contingent liabilities and relevant budget expenditure are not included. Public-private partnerships are also not used.

33. **The financial public sector engages in quasi-fiscal activities on behalf of the government that are not assessed in the budget documentation.** The BCR provides the government with services as a financial and fiscal agent and advisor, that are clearly regulated, although they are not carried out at market conditions and are not reflected in the fiscal reports for general government. The state maintains historical debts with the BCR that adversely affect its asset position. In addition to the BCR, the financial public sector includes the *Banco Multisectorial de Inversiones (BMI)*, *Banco de Fomento Agropecuario*, *Fondo Nacional de Vivienda Popular*, and the *Fondo Social para la Vivienda*. These institutions engage in development functions with subsidized rates, and have managed to absorb the impact of these operations and to generate operating profits. BMI, which is owned by the BCR, is a second-tier bank that provides resources to eligible credit institutions (primarily private banks). It also performs a pension finance function through a trust reflected in the state budget documentation.

## Publication of data on debt and other financial assets and liabilities

34. **Information on gross public debt is published.** The DGICP is responsible for supervising compliance with obligations deriving from debt, and maintains debt registration and manages debt service.<sup>47</sup> This database is managed using the Debt Administration Management Information System (SIGADE). However, the data provided by this system do not systematically reconcile with BCR payments or with data from the creditors. The DGICP does, however, conduct certain data validations and reconciliations between institutions to verify the debt registers. The DGICP uses SIGADE to prepare monthly reports and statistics.<sup>48</sup> The BCR also prepares statistics on debt with monthly, quarterly, and annual periodicity, based on information from SIGADE. The state financial management report published by the DGCG includes data from the DGICP on stocks and flows of domestic and external public debt.

35. **Information on non-debt liabilities is not published.** Data are not published or maintained on commitments in connection with retirements, guarantees, contractual obligations, national or international judicial disputes, or obligations derived from natural

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<sup>46</sup>State Budget Management Report.

<sup>47</sup>Articles 85 (f), (h), (e), and (i) and 94 of the Law on State Financial Administration.

<sup>48</sup>The following reports are submitted: (i) the debt profile report, which is public and includes summary information on the public sector debt balance and service, its structure, and financing disbursements; (ii) management reports for internal use; and (iii) statistical reports for internal use.

disasters. The quality of the fiscal information could be improved with an enhanced knowledge of the state's explicit and implicit guarantees.

**36. Information is published annually on the government's financial assets, in aggregate form.** The annual state financial management report provides data on the state's financial assets (available funds and investments) in substantially aggregate form. For example, only the overall amount of long-term loans to public enterprises or decentralized institutions is estimated, and the individual amounts are not evaluated.<sup>49</sup> In addition, no comprehensive list of institutions and enterprises benefiting from these loans is provided.

### **Long-term fiscal analysis**

**37. Long term fiscal analysis is insufficient and isolated with no significant impact on the budget process.** While the Law on State Financial Administration assigns the Finance Ministry responsibility for preparing a financial program, no multiannual planning criteria are established. The Economic and Fiscal Policy Directorate of the Finance Ministry prepares a document known as the Medium-Term Macroeconomic Framework, the last version of which covers the period 2010–14. The report presents fiscal policy principles, foundations, and objectives for the period and establishes policy targets. This document is not published and is not an input for annual budget preparation. The linkages with the budget process do not seem to be clear and the discrepancies between the budget figures and those from the macrofiscal framework are not explained. For its medium and long-term fiscal analyses, the BCR uses macrofiscal data provided and agreed by the Finance Ministry in connection with the IMF Stand-by Arrangement, with a five-year horizon (up to 2015).

### **Budget guide**

**38. A simple, clear budget guide is published and publicly disseminated.** The Finance Ministry publishes at its web portal<sup>50</sup> and disseminates a Citizen's Guide designed to provide a simple, user-friendly explanation of the components of the General State Budget and to provide a summary of the total budget figures for each year. This initiative was expanded in a special area of the Fiscal Transparency Portal on understanding the state budget which will be used to publish user-friendly data on budget policy and the budget.

### **Budget classification**

**39. The annual budget presentation is consistent with the internal rules defined under GFSM 1986.**<sup>51</sup> The annual budget is based on institutional and economic classification

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<sup>49</sup>National Recording Center [*Centro Nacional de Registros*], Salvadoran Agricultural Processing Institute [*Instituto Salvadoreño de Transformación Agraria*], National Drinking Water and Sewer Administration, and Rio Lempa Hydroelectric Executive Committee.

<sup>50</sup>[http://www.mh.gob.sv/portal/page/portal/MH\\_Finanzas/MH\\_PRESUPUESTO/Guia\\_del\\_Ciudadano](http://www.mh.gob.sv/portal/page/portal/MH_Finanzas/MH_PRESUPUESTO/Guia_del_Ciudadano).

<sup>51</sup>The main difference with GFSM 2001 is that it does not present a functional expenditure classification consistent with international standards, and the definition of the central government does not include decentralized non-enterprise institutions.

mechanisms that produce uniform documentation for revenue and expenditure and identify recurrent and capital expenditure. This classification<sup>52</sup> is compatible with GFSM 1986 rules and includes the following in the draft law for 2011: (i) the revenue and expenditure budget classification mechanism; (ii) economic classification of revenue and expenditure; (iii) institutional and economic classification by management area; and (iv) classification by source of financing.

There are six categories in the classification by management area<sup>53</sup> and no subfunctional or program disaggregation according to the United Nations Classification of the Functions of Government (COFOG) is used. The Ministry of Agriculture and Ministry of Public Health and Social Assistance have each initiated the application of a pilot performance-based budget program that includes classification by program. Summary documents in connection with these pilot operations are available at the Fiscal Transparency Portal.

### **Overall balance of government**

40. **The overall balance of the central government is the main indicator of the fiscal position in the budget, and the general government balance is monitored during the year.** The main focus of fiscal policy formulation and discussion is the overall balance of the central government. In addition, this indicator is supplemented with others such as tax burden, public investment, and public debt. Public debt data are not included in the budget documentation, while they are reflected in the general report on outturn. The Finance Ministry prepares monitoring reports on public budget outturn at its web portal: The Executive Summary of Expenditure Budget Outturn (monthly) and the Economic Bulletin [*Boletín Económico*] (quarterly) that includes a summary from the Monitoring and an Outturn Evaluation Report on the Central Government Budget each quarter. The BCR publishes a monthly performance monitoring report on the nonfinancial public sector.

### **Performance-based budgeting and reporting**

41. **The objectives and expected performance from government activities are not discussed in general terms.** Budget activity does not include preparation of performance-based budgets. However, the 2011 draft budget submitted to the Legislative Assembly in September included two pilot programs on draft performance-based budgets in the public health and social assistance sectors, as well as in agriculture and stock breeding.<sup>54</sup>

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<sup>52</sup>See *Manual de Clasificación para las Transacciones Financieras del Sector Público* [Manual on classification of public sector financial transactions], Finance Ministry, 2010.

<sup>53</sup>The categories are: (i) administrative arrangements; (ii) administration of justice and public security; (iii) social development; (iv) support for economic development; (v) public debt; and (vi) general obligations of the central government. For a more comprehensive analysis, see I. Fainboim, V. Diaz, and F. Moreno, *El Salvador: Medidas prioritarias para el establecimiento de un marco de gastos de mediano plazo* [El Salvador: priority measures for establishing a medium-term expenditure framework], IMF, September 2010.

<sup>54</sup>See Law on the General State Budget, 2011.

## D. Assurances of Integrity

### Integrity in budget and accounting processes

42. **Budget data are not reliable and the variance between budgeted and actual outturn of key fiscal aggregates is disclosed to the public.** During the past three years (2007–09) the variance between budgeted and actual outturn fluctuated by more than 10 percent (16 percent, 11 percent, and 16 percent, respectively) owing to the incorporation of budget increases during the year that led to an increase as against the initially approved expenditure. Projected domestic revenue fell short of the real figures. State financial management reports provide an analysis of the main discrepancies between the two fiscal variables.

43. **Generally-accepted accounting standards are largely used in compiling the fiscal data. The accounting base used is stated in the documentation on the budget and the final accounts.** Fiscal data are prepared based on the Law on State Financial Administration and its Regulation. It is the Finance Ministry's responsibility to approve, through the Directorate-General of Public Accounting, the main general accounting principles and rules, as well as the technical and instructional manuals required (accounting policies, chart of accounts, specific standards, and technical procedures). The rules are based on accrual figures and the accounting policies used are specified in the state financial management report. Monthly institutional reports on budget outturn may include information that is not properly updated, as a result of administrative deficiencies and delays potentially affecting the recording of certain transactions. Although they are normally minor, these operating lags can mean that the monthly information reported by the institutions is not final. This situation is corrected at the end of the year, and this approach does not distort the institution's final results. In addition, discrepancies may exist in some institutional units in accrual-based recording of certain expenditure and revenue, owing to deficiencies in the accounting periodicity or the failure to register provisions for fiscal risks or contingent liabilities in the accounting system.

### Reconciliation practices

44. **The processes of account reconciliation and fiscal reporting are effective.** The Law on State Financial Administration and its Regulation establish the periodicity and recipients of reports on financial management, and assigns the Finance Ministry responsibility for preparing them. Through its operating directorates, the Finance Ministry receives and consolidates monthly institutional reports containing budget and accounting information from all central government agencies. These institutional reports are prepared by the Institutional Finance Unit and are submitted to the Finance Ministry within 10 days after the end of the reporting month. The Finance Ministry uses these reports as a basis to prepare its monthly, quarterly, and annual reports. Monthly reconciliations are conducted at the end of the fiscal year through the Financial and Fiscal Statistics Department of the BCR, on a stocks and flows basis, for the various monetary accounts the government holds with the BCR and commercial banks, domestic financing, and debt amortization. Each government institution reconciles its bank statements on a monthly basis. Monthly budget allocations are

reconciled within three months after the end of the fiscal year. Reports on budget outturn contain comparisons between budget allocations and accruals.

45. **There have been no substantial revisions to the historical fiscal data, and changes in the data classification include an explanation.** During the past decade, there has been no knowledge of substantial changes in the historical fiscal data. Cases when minor changes have been made have been specifically addressed and the mechanisms for converting the data have been prepared so that they can be used for comparative purposes.

### **Internal supervision**

46. **Public servants are subject to a well-defined code of behavior.** The Code of Government Ethics, published in 2006,<sup>55</sup> is designed to promote ethical conduct in the public function; to protect the state's assets; and to prevent, detect, and penalize corruption of public servants. This law created the Government Court of Ethics, with technical, economic, and administrative autonomy, which is responsible, *inter alia*, for promoting ethical conduct, addressing reporting procedures, and issuing penalties for breaking the law. The law establishes fines and penalties for noncompliance (for example, a fine ranging from 10 percent to 10 times the perpetrator's monthly wages is provided). Any citizen may exercise the right to report such violations to the court or to any of its committees. Every June, the court submits its activity report to the Legislative Assembly.

47. **Public service employment procedures are not clear.** The provision system for public servants is governed by the Law on the Civil Service, which dates back to 1961, as recently amended. This law covers access to the public service based on the principles of merit and capacity. Further, public jobs can only be created or eliminated by law. There is insufficient information on transparency in the job creation process. Through the Subsecretariat of Governance and State Modernization within the Secretariat of Strategic Affairs of the Ministry of the Presidency, the authorities are working on a project to enhance the professional standing of the civil service.

48. **Procurement rules and practices are based primarily on international standards, and are well known and observed in practice, although there is scope to improve efficiency.** There is a clearly defined regulatory framework for public procurement practices,<sup>56</sup> which covers contracts for works, supplies, consulting, concessions, and leasing of real properties carried out by government institutions. The law established the Regulatory Unit for Government Procurement and Contracting (UNAC) as an oversight agency for public procurement, whose main functions include regulatory, advisory, and training activities. All regulations and management manuals issued by the UNAC are available and accessible at the Finance Ministry's webpage. The operational decentralization of public procurement was carried out through the Institutional Procurement and Contracting Units (UACI)<sup>57</sup> existing in each government agency, responsible for awarding contracts to the

<sup>55</sup>Legislative Decree 1038 of April 27, 2006 and its Regulation approved pursuant to Decree 1 of May 28, 2008.

<sup>56</sup>Law on Government Contracting and Procurement (LACAP, Legislative Decree 868 of April 5, 2000) and its Regulation (Decree 98 of May 20, 2005).

<sup>57</sup>There are now 385 of such units in various public institutions.

principals. There is no electronic contracting platform, although procurement is managed using the COMPRASAL system which is available at the Finance Ministry's webpage, which includes an electronic notification system for bidders listed in the register of suppliers when any institution issues a request for tenders. This system includes information on all bidding procedures, publication of the specifications, mechanism used in publication, successful bidders, and award prices. It also includes statistics on contract management.

According to the evaluation report on the Government Procurement and Contracting System of El Salvador carried out by the Inter-American Development Bank in 2010, the institutional framework and its management capacity are adequately addressed in the procurement system. The system should be made more efficient and effective by promoting standards and instructions to enhance operational aspects of the system. There is also scope for improvement in the integrity and transparency of the system, with controls and mechanisms to prevent potential corruption activities. There are also a number of weaknesses in the appeal system, as there is no exclusive agency to address complaints from suppliers and contractors. Accordingly, complaints are filed with authorities that are not independent from the institutions responsible for the acts in question.

**49. Public assets are purchased and sold using open procedures and large-value transactions are listed separately in the budget and fiscal reports.** Public procurement regulations<sup>58</sup> do not cover the purchase of public assets, although they are subject on a supplementary basis to the rules of ordinary law, and to the Law on Government Procurement and Contracting in the areas of preparation, awarding, and execution. At both the budget and accounting levels, there are specific codes and accounts for recording and filing financial reports on transactions in connection with the purchase and sale of fixed assets. Outlays charged to the funds are approved by the Legislative Assembly through the specific law that regulates privatization. While there is no specific agency responsible for supervising privatizations, these processes are subject to auditing by private firms and the National Audit Office, through special examinations.

**50. Internal auditing is insufficiently effective and audit procedures are subject to examination.** Each public institution has an internal audit unit responsible for institutional supervision, which reports organizationally to that unit, but which is in fact functionally independent. The rules governing internal audit practices are issued by the National Audit Office and are based on international standards.<sup>59</sup> Further, the audit units can issue their own internal oversight rules in accordance with the principles issued by the National Audit Office. The working methodology for internal audit units is consistent with international practices and is based on annual working programs that must be reported to the National Audit Office by March 31 of each year. Internal audit staffing is fairly modest and personnel training is adequate. Training plans are not intensive and their financing resources are insufficient. The wages paid to staff in these audit units are low as compared with other public servants. The results of these activities are recorded in reports submitted to the heads of the

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<sup>58</sup>Article 24 of the Law on Government Procurement and Contracting.

<sup>59</sup>Committee of Sponsoring Organizations (COSO).

institutional units and the National Audit Office. They are not published unless specifically petitioned by an interested party. In such cases, the relevant information is provided.

### **Clarity of internal control and independence of tax administration**

51. **The tax administration has effective internal monitoring and control mechanisms.** The tax administration is moderately computerized and there are mechanisms in place to file advance requests for decisions on tax debt in connection with specific transactions. Where the supervision system is concerned, the DGII has an internal supervision and control unit. It is also subject to the system of periodic external supervision carried out by the National Audit Office. The tax administration has no code of conduct to confirm financial liabilities in connection with staff and collection systems. However, there are a number of provisions regulating conduct of staff in the sector.<sup>60</sup> Procedural application of taxes to staff members is specifically acknowledged in the existing legislation.<sup>61</sup> There are mechanisms to defend taxpayers' rights. The tax administration analyzes resources and appeals from taxpayers through administrative channels in the first instance. The Finance Ministry has the Court of Appeal for domestic taxes and customs (TAIIA) which serves as a second administrative instance to resolve appeals from taxpayers (see paragraph 12). A third level of appeal for disputes is provided by the Judicial Branch through the regular courts. Finally, the Supreme Court of Justice (CSJ) is the last level of defense.

Taxpayers have the right to appoint a legal agent to represent them in their relations with the tax administration.<sup>62</sup> They also have the right of consultation concerning their status with the tax administration.<sup>63</sup> In addition, the Taxpayer Defense Unit reports on events or situations potentially constituting violations by parties subject to management.

52. **The tax administration is protected by law from political interference.** Under Article 2 of its organic law, the DGII is an independent technical agency that, although it is part of the Finance Ministry, is free of political interference in its activities and in the resolutions it issues. The tax administration publishes monthly tax revenue data that are accessible through the Internet. Information is also published on management of the administration, and an annual report for the fiscal year in question is submitted to the National Assembly, through the Finance Ministry.<sup>64</sup>

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<sup>60</sup>Articles 28 and 29 of the Tax Code (Legislative Decree 230 of December 14, 2000, as amended under Decree-Law 233 of December 16, 2009) in respect of information restrictions and disqualification of staff, respectively. Article 8 of the Organic Law on the DGII; Articles 5 and 6 of the Law on Government Ethics; Articles 31 and 32 of the Law on the Civil Service.

<sup>61</sup>Article 174 of the Labor Code; Articles 20-23 of the Law on Government Ethics, and Articles 41-56 of the Civil Service Law; the Regulatory law guaranteeing the hearing of public servants not participating in the administrative career stream, and Articles 2 and 3 of the Law on Administrative Litigation.

<sup>62</sup>Article 32 of the Tax Code.

<sup>63</sup>Article 26 of the Tax Code.

<sup>64</sup> See <http://www.mh.gov.sv>.

## Independent external supervision

53. **External audit is independent of the executive branch, and its mandate covers all public sector activities.** External supervision is carried out by the National Audit Office pursuant to the Constitution and its specialized regulations,<sup>65</sup> which is independent of the executive branch<sup>66</sup> in functional, administrative, and budget matters. Its president and judges are elected by the Legislative Assembly for three-year terms subject to renewal,<sup>67</sup> and they can only be removed from office for a confirmed legal cause. The National Audit Office prepares its budget and submits it to the Executive Branch through the Finance Ministry. Amendments to the draft budget by the Legislative Assembly must be discussed with the President of the National Audit Office and the Finance Ministry. It is responsible for oversight of the public finance authorities in general, and specifically budget execution, oversight of overall public sector management, including local governments and any agency that collects public funds. It also engages in jurisdictional functions and is the oversight body of the Public Management Supervision and Audit System.<sup>68</sup> To discharge its duties in this connection, it is divided into Chambers of the First Instance<sup>69</sup> and a Chamber of the Second Instance.<sup>70</sup> All staff of the National Audit Office have unrestricted access<sup>71</sup> in their functional activities to any records and documentation required to discharge their duties. The President of the National Audit Office must report annually on his or her activities to the Legislative Assembly within three months after the end of the fiscal year in question. In their function to review the internal audit system, the functional and organizational position of these units does not make a clear distinction between the Executive and Legislative Branches as the highest authorities for internal and external supervision of public management.

54. **The external audit capacity is substantial.** The National Audit Office conducts annual financial, management and operational audits, and special examinations. It also

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<sup>65</sup>Articles 195-199 of the Constitution; Organic Law on the National Audit Office (Decree 438 of August 31, 1995); Functional Organic Regulation of the National Audit Office (Decree 2 of August 24, 2004).

<sup>66</sup>Article 195 of the Constitution and Article 2 of the Organic Law on the National Audit Office (Decree 438 of August 31, 1995).

<sup>67</sup>The Organic Law on the National Audit Office (Decree 438 of August 31, 1995) regulates incompatibility of the Judges of the Second Chamber and does not specify the regime of incompatibilities for the President and remaining judges.

<sup>68</sup>Article 45 of the Organic Law on the National Audit Office (Decree 438 of August 31, 1995): this presumes that it engages in normative regulation and development functions, as well as evaluation or control of internal audit units. It issues internal audit regulations, instructions, and rules, and supervises their correct application. Internal audit units must submit their working plans, as well as all reports deriving from their activity, on an annual basis. Their heads report functionally to the National Audit Office and organizationally to the institutional units to which they belong. Should the head of such units be removed from office, the National Audit Office must be informed for purposes of subsequent audit activities.

<sup>69</sup>Article 14 of the Organic Law on the National Audit Office (Decree 438 of August 31, 1995): they are comprised of two judges and are responsible for ruling in the first instance on administrative and property liabilities, through the Audit Office.

<sup>70</sup>Comprised of the president and two judges, and responsible for reviews and appeals of decisions issued in the first instance.

<sup>71</sup>Article 45 of the Organic Law on the National Audit Office (Decree 438 of August 31, 1995).

conducts audits on environmental management and information systems. All members of the team of auditors have university degrees<sup>72</sup> and are subject to annual training and recycling activities.<sup>73</sup> The National Audit Office has a staff of approximately 600 auditors to conduct various public sector audit activities.

Although the technical capacity to conduct such audits is substantial, not all of the public sector agencies are audited every year.<sup>74</sup> Under the law, there is a time limit of five years for the National Audit Office to conduct its activities, from January 1 of the year following the year of supervision. To date, no declarations have been issued in connection with this time limit. Staff assigned to the National Audit Office receive higher wages, as compared with the compensation paid to staff of other institutions.

**55. External audit reports are not submitted to the Legislative Assembly or published, although the comments in the reports are systematically followed up.** Procedures for oversight and the issue of audit reports are included in the legislation. Audit reports are available to operative staff and heads of units subject to audits, although they are not submitted to the Legislative Assembly or published for general purposes.<sup>75</sup> They are, however, available to the Assembly or to any other person or institution that so requests. The recommendations included in the audit reports must be observed by the audited parties and therefore they are subject to follow-up by the internal and external supervision body during the following year.<sup>76</sup> In the event of noncompliance with these recommendations, the responsible parties will be questioned for noncompliance with the law and penalties will be applied.<sup>77</sup> The Legislative Assembly has no standing committee or body to monitor results and recommendations in the reports, since they are generally not submitted to the Assembly, as indicated above.

**56. External scrutiny of macroeconomic models and assumptions is permitted, although not subject to publication.** The macroeconomic models and assumptions or forecasts are available to users who request them, although they are not published, nor is there any agreement or practice to submit them to any specific institutions for validation.

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<sup>72</sup>Article 32 of the Law on the Audit Office requires a university education.

<sup>73</sup>In 2009, a total of 73 training events were held in the area of audit and supervision, regulations, development and strengthening, computers, quality, health and occupational safety, and environment. These activities involved a total of 1,511 participants and 1,617 total teaching hours (2009 Report on the Activities of the National Audit Office).

<sup>74</sup>In 2009, approximately 80 percent of the central government agencies and approximately 90 percent of the municipal governments were audited.

<sup>75</sup>The Law on the National Audit Office allows the option of reporting any substantial irregularities committed by any public official or employee in the use of public funds to the President, the National Assembly, and to higher organizational levels. These reports are public.

<sup>76</sup>Article 48 of the Law on the National Audit Office.

<sup>77</sup>Determination of liabilities is regulated under Decree 3 on the National Audit Office of November 22, 2001 and the Regulation on executing the jurisdictional function (Decree 2 of June 3, 2002).

57. **The National Statistics Office has no legislative assurance of independence.** The Directorate-General of Statistics and Census (DIGESTYC), which reports to the Ministry of Economy, is established in accordance with the Organic Law on the National Statistical Service,<sup>78</sup> the oversight body of the National Statistics Service. Its powers include publication of financial and fiscal data or statistics, although it has not published fiscal data for some time. In this context, the BCR, jointly with the Finance Ministry, have undertaken to research, collect, compile, tabulate, analyze, publish, and distribute the fiscal data.<sup>79</sup> Examination of fiscal data is in the operating scope of the National Audit Office through oversight in connection with the state financial management report.

### III. IMF STAFF COMMENTARY

58. **El Salvador meets the requirements of the fiscal transparency code in the following areas:**

- The structure and functions of the government are clearly specified.
- The budget timetable is specific and is observed. The Legislative Assembly has adequate time to consider the draft budget.
- Laws and regulations on collection of tax and nontax revenue and criteria governing administrative discretionality in their application are reasonable, clear, and understandable. Appeals involving tax and nontax obligations are generally considered in a timely manner, although they can be subject to delays from time to time.
- Mechanisms for the coordination and management of budgetary and extrabudgetary activities are well defined within a general fiscal policy framework.
- The definitive accounts cover all central government budgetary and extrabudgetary activities.
- The general balance and gross debt of the central government are standard synthetic indicators of the government's fiscal situation.
- Advance release data calendars are announced and observed.
- The annual budget and definitive budget accounts indicate the accounting method use in compilation and presentation of the fiscal data. Accepted accounting standards are mainly applied.

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<sup>78</sup> Decree 1784 of March 30, 1955.

<sup>79</sup> <http://www.bcr.gob.sv/>

59. **The main areas where further improvements are required include:**

**Short-term measures**

- Midterm reports on budget developments should be submitted to the Legislative Branch.
- The budget documents should permit comparison with the three preceding years and should provide aggregate assessments for the subsequent three/five years.
- The budget documentation should incorporate the fiscal data from local governments to provide information on fiscal activities of general government, and to permit assessment of their impact on the national economy.
- A working group on medium and long-term fiscal analysis should be established, to include the Directorate-General of Budget, the Economic and Fiscal Policy Directorate, Banco Central de Reserva, and the fiscal directorates (DGII, DGA, and Treasury).
- Adequacy of budget classification mechanisms in terms of international standards defined in GFSM 2001 should be considered a priority and a prerequisite for the general use of performance-based budgeting.
- The National Audit Office must submit all reports, including the Annual Report, to the Legislative Body, and disseminate them.

**Medium-term measures**

- Relations between the government and public corporations should be based on clear agreements making it possible to maintain the reserves required for investment planning.
- The annual budget should be realistic, and independent experts should be asked to assess the fiscal and macroeconomic forecasts. The budget should be prepared and presented in a comprehensive medium-term macroeconomic and fiscal framework. Domestic revenue estimates should be less conservative. The budgets should be comprehensive, and should include all expenditure of decentralized public institutions.
- The budget documentation should include a fiscal sustainability assessment and a sensitivity analysis for the key macroeconomic assumptions.
- Fiscal reports should provide an assessment of fiscal risks in a Fiscal Risk Statement that includes:

- Risks of unexpected changes in macroeconomic variables such as economic growth, consumer prices, interest rates, and exchange rates;
- Contingent liabilities: explicit (derived from laws on contracting, guarantees and pledges) and implicit (derived from the government's moral or expected obligations based on pressure and public expectations). Expenditure derived from banking crises, natural disasters, coverage of public enterprises and public-private investments, and losses sustained by local governments should also be included.

Fiscal reports should also include information on tax expenditure in connection with exemptions, deductions, and staggering of tax payments.

- Steps should be taken to improve transparent supervision of all quasi-fiscal activities, regardless of the form and timing.
- Procedures and conditions for public-sector employment should be documented and made available to the interested parties.

#### IV. SUMMARY TABLES

### Table 1. A Summary Assessment of Practices

	Principles and Practices	Summary Assessments	Comments
<b>Clarity of Roles and Responsibilities</b>			
<b>1.1.</b>	<b>The government sector should be distinguished from the rest of the public sector and from the rest of the economy.</b>		
1.1.1.	The structure and functions of government should be clear.	Largely Observed	There have been no significant improvements recently. There are some quasi-fiscal and extrabudgetary activities.
1.1.2.	The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.	Observed	The BCR and public corporations engage in quasi-fiscal activities.
1.1.3.	The responsibilities of different levels of government, and the relationships between them, should be clearly specified	Largely Observed	The establishment of municipal debt limits and relevant oversight by the Finance Ministry are the most significant improvements.
1.1.4.	Relationships between the government and public corporations should be based on clear arrangements.	Largely Not Observed	There have been no significant improvements.
1.1.5.	Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures	Largely Observed	There have been no significant improvements.
<b>1.2.</b>	<b>There should be a clear and open legal, regulatory, and administrative framework for fiscal management.</b>		
1.2.1.	The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures	Largely Observed	The principles of unity and universality have not been observed in processing various supplementary budgets. There are also some extrabudgetary activities.
1.2.2.	Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.	Largely Observed	The tax administration is fragmented between the DGII and DGT. There are some occasional delays in appeals in connection with tax obligations.
1.2.3.	There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.	Observed	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
1.2.4.	Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.	Not Observed	No information is available on contractual arrangements.
1.2.5.	Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.	Largely Not Observed	Public debts are the only liabilities that are based on clear rules and on which data are published.
<b>Open Budget Process</b>			
<b>2.1.</b>	<b>Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.</b>		
2.1.1.	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature	Observed	
2.1.2. (a)	The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework.	Not Observed	
2.1.2. (b)	Fiscal targets and any fiscal rules should be clearly stated and explained.	Not Observed	
2.1.3.	A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.	Largely Observed	The medium-term impact of fiscal policies is not evaluated.
2.1.4.	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.	Not Observed	
2.1.5.	There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework	Largely Observed	While management of extrabudgetary activity is based on a clear legal framework, insufficient information is published in this connection.
<b>2.2.</b>	<b>There should be clear procedures for budget execution, monitoring, and reporting</b>		
2.2.1.	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.	Observed	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
2.2.2.	A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.	Not Observed	
2.2.3.	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation	Observed	
2.2.4.	Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.	Observed	
<b>Public access to information</b>			
<b>3.1.</b>	<b>The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.</b>		
3.1.1.	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.	Largely Observed	The State financial management report should cover all budget activities, as well as extrabudgetary activities in highly aggregate form.
3.1.2.	Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.	Not Observed	
3.1.3.	Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.	Not Observed	
3.1.4.	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.	Largely Observed	Budgets in addition to the annual budget are prepared, some of which are pluriannual.
3.1.5.	The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.	Largely Not Observed	Information on debt is disseminated, but not on major non-debt liabilities.
3.1.6.	The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.	Largely Not Observed	Fiscal data are not declared for municipalities.

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
3.1.7.	The government should publish a periodic report on long-term public finances.	Not Observed	
<b>3.2.</b>	<b>Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.</b>		
3.2.1.	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.	Observed	
3.2.2.	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.	Largely Observed	There is no functional classification.
3.2.3.	The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.	Largely Observed	The overall balance of general government is the main indicator of the fiscal situation in the budget, and the general government balance is monitored during the year.
3.2.4.	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.	Not Observed	The objectives and expected results from government activities are not discussed in general terms.
<b>3.3.</b>	<b>A commitment should be made to the timely publication of fiscal information.</b>		
3.3.1.	The timely publication of fiscal information should be a legal obligation of the government.	Not Observed	A draft law on access to information is before the Legislative Assembly. The Finance Ministry directorates have agreed to publish information with timeliness defined at the Fiscal Transparency Portal.
3.3.2.	Advance release calendars for fiscal information should be announced and adhered to.	Largely Observed	The Finance Ministry directorates have agreed to publish information with timeliness defined at the Fiscal Transparency Portal.
<b>Assurances of Integrity</b>			
<b>4.1.</b>	<b>Fiscal data should meet accepted data quality standards</b>		
4.1.1.	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.	Largely Not Observed	Budget data are not reliable and the variance between budgeted and actual outturn of key fiscal aggregates is disclosed to the public.
4.1.2.	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.	Largely Observed	Generally-accepted accounting standards are used in compiling fiscal data. The accounting base used is stated in the documentation on the budget and the final accounts.

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
4.1.3.	Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.	Observed	
<b>4.2.</b>	<b>Fiscal activities should be subject to effective internal oversight and safeguards</b>		
4.2.1.	The conduct of civil servants should comply with clear, broadly defined ethical standards. Ethical standards of behavior for public servants should be clear and well publicized.	Observed	
4.2.2.	Public sector employment procedures and conditions should be documented and accessible to interested parties.	Largely Not Observed	Civil service employment procedures are insufficiently clear.
4.2.3.	Procurement regulations, meeting international standards, should be accessible and observed in practice.	Observed	
4.2.4.	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.	Observed	
4.2.5.	Government activities and finances should be internally audited, and audit procedures should be open to review.	Observed	
4.2.6.	The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.	Observed	
<b>4.3.</b>	<b>Fiscal information should be externally scrutinized.</b>		
4.3.1.	Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.	Observed	
4.3.2.	The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.	Largely Not Observed	External audit reports are not submitted to the Legislative Assembly or published, although the comments in the reports are systematically followed up.
4.3.3.	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.	Largely Not Observed	External scrutiny of macroeconomic models and assumptions is permitted but not encouraged.
4.3.4.	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.	Not Observed	The national statistics office has no legal assurance of independence.

**Table 2. Public Availability of Information—A Summary**

	<b>Budget and fiscal report element</b>	<b>Included in budget/report documents</b>	<b>Available to the public</b>	<b>Para. ref.</b>	<b>Code ref.</b>
1.	Central government (CG) budget estimates	Yes	Internet		3.1
2.	CG EBFs (including special development funds, social security funds, and resource revenue funds)	Yes, in the Financial Management Report	Yes, in the Financial Management Report		3.1.1
3.	CG Budget outturns	Yes - State budget management report Aggregate/detailed 1 prior year	Yes/Internet	Paragraph 50	4.1.1
4.	CG Budget forecasts	Yes for the fiscal year. No for subsequent years.	Yes/Internet		3.1 3.2
5.	CG Contingent liabilities	No	No		3.1.3 3.1.5
6.	CG Tax expenditures	No	No		3.1.3
7.	CG QFAs	No	No		3.1.3.
8.	Macroeconomic assumptions	Yes in the Medium-Term Fiscal Framework	No		3.1 4.1.1
9.	Analysis of fiscal risks/sensitivity analysis	No	No		3.1.3
10.	CG Debt	Yes, full information on domestic and external debt	Available to the public on the Internet		3.1.5
11.	CG Financial assets	Yes, in the State financial management report	Yes in the State financial management report		1.2.5
12.	Sustainability analysis	Yes, there are a number of debt sustainability analyses (BCR, Finance Ministry, IMF)	Not published		2.1.4 3.1.2
13.	General government budget estimates	Yes, in detail in the budget. Excludes EBFs/QFAs/tax expenditures/ contingent liabilities			3.1.1 3.1.3

14.	Monthly budget outturn reports/ General government quarterly reports on fiscal outturn	Yes - <b>Outturn evaluation and monitoring reports</b> 3 weeks after end of quarter <b>Executive summary of expenditure execution</b> 3 weeks after end of quarter There is no mid-term review report.	No  Yes/Internet	Paragraph 29  Paragraph 29	2.2.2  2.2.2
15.	CG Definitive accounts	Yes, state budget financial management report Examination by the National Audit Office 7 months after end of fiscal year	Yes/Internet	Paragraph 31	2.2.4